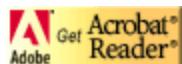


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Capitol Building
Rooms 124/129
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Director: Linda S. Luebbering

Fiscal Year 2004 Budget In Brief

Missouri Budget and Legislative Agenda

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Bob Holden

Governor

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January 15, 2003

TO THE GENERAL ASSEMBLY AND THE PEOPLE OF MISSOURI:

For the past two years, state governments across the country have been fighting for their financial lives. When I took office in January 2001, I was immediately faced with a budget shortfall. I took quick and decisive action to reduce state spending to ensure the state's budget remained in balance. The national recession, which was worsened by the terrorist attack on our nation, has continued to sap resources from the state's budget. Although forecasters predicted a slowly improving economy, corporate accounting scandals and the potential for war have weakened the confidence of consumers and placed a further drag on the economy.

Because of the stagnant economy, it was necessary to cut almost \$900 million out of the budget during my first two years in office. These were deep cuts, but they were focused as much as possible on reducing administrative costs and providing services in the most efficient manner possible. However, some difficult cuts have been made, including loss of health care coverage for some low-income adults, a reduction in funding for higher education, and layoffs of state employees.

The Fiscal Year 2004 budget brings a one billion dollar shortfall and the greatest challenge to Missouri government since World War II. That is why I traveled around the state to host Fair Share Budget Summits with citizens from all walks of life and to listen to their suggestions for fixing the shortfall, while ensuring the best future for all Missourians.

Based on input from Missourians, my plan includes a comprehensive approach to ensuring a Fair Share Budget. First, it focuses on fiscal responsibility through a detailed core review that has resulted in \$1.1 billion in core cuts over three years. Second, my Managing for Results Initiative will continue to find ways to provide services more efficiently. Third, I will call on the General Assembly to pass legislation requiring all new programs to contain a sunset and not be renewed unless results have been achieved.

Finally, my plan calls for closing tax loopholes and providing targeted new sources of revenue to maintain education funding and help pay the cost of health care for low-income seniors, the disabled, and children. Missouri can no longer afford to give money away to corporations through special tax loopholes. Average citizens must be assured that everyone is paying their fair share to support vital state services.

The Fiscal Year 2004 shortfall brings both challenges and opportunities. It creates challenges to balance the budget without cutting too deeply. It also brings opportunities to ensure the budget is focused on results. My plan will keep the budget in balance, protect funding for education and other vital programs, and provide a Fair Share Budget that will help our state create the jobs necessary to ensure a brighter future.

Sincerely,

Bob Holden
Governor of Missouri

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Leading Missouri Through Tough Economic Times

“Like the people of Missouri, state government must live within its means. Missouri has been a leader in taking the fiscally responsible actions necessary to keep our state’s budget balanced during these tough times.”

Governor Bob Holden

Governor Holden continues to lead the state of Missouri through tough economic times. When Governor Holden took office two years ago, the state was beginning the largest fiscal challenge since World War II. These challenges continue in Fiscal Year 2004, requiring budget cuts not seen in decades. Governor Holden faced these challenges immediately. His first task after taking office was to put Missouri’s fiscal house in order. The Governor continues to make balancing the state’s budget a priority. Through his legislative and budget agenda, he again presents a balanced Fiscal Year 2004 budget. His approach to create a “Fair Share Budget” will focus on fiscal responsibility and managing for results.

ENSURING FISCAL RESPONSIBILITY

The Governor is committed to leading the state and its citizens through these tough economic times. In his first two years, the Governor has taken the following steps to address the state’s declining revenue situation and ensure that the state’s budget remains balanced:

- Cut \$900 million and 1,000 positions from state department budgets – the most in Missouri history.
- Withheld \$67 million and 870 positions from state agency operating budgets in the current fiscal year.
- Signed legislation to allow the state to securitize Missouri’s tobacco settlement proceeds and give the state another mechanism to raise revenues. Senate Bill 1191 allows the state to securitize no more than 30 percent of the tobacco settlement proceeds revenue stream.
- Signed Senate Bill 1248. In 2002 the Governor challenged the General Assembly to find the resources necessary to fund the budget they passed. The

General Assembly met the challenge and the Governor signed legislation to meet the increasing costs of K-12 education and revenue shortfalls. The new bill raised \$25 million for public education and \$89 million to help balance the state’s budget.

- Offered a time-limited tax amnesty program to businesses and individuals that voluntarily agreed to settle past debts. This successful program generated \$80 million in revenue, exceeding expectations and generating over \$70 million for public education.
- Held budget summits with citizens, legislative leaders, and business leaders across the state to seek input and cooperation in increasing government efficiency and making sure working families and small businesses do not carry an unfair share of the state tax structure.
- Conducted a review of corporate tax loopholes to determine which are taking much needed revenue away from the state, without providing a benefit to the economy.

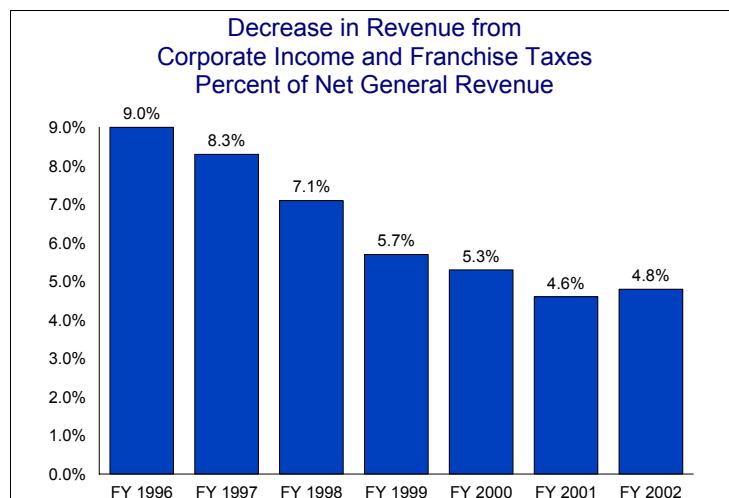
The FY 2004 Budget Challenges

The Missouri economy generally mirrors the national economy. The United States economy officially went into recession in March 2001. During the summer of 2001, all major national forecasters envisioned an economic recovery during 2002. However, the terrorist attacks of September 11, 2001, and the potential war have delayed the projected economic recovery. At various times during the year the national economy has shown signs that it was gaining strength. Recent indicators point to a slowing of economic activity, including continued job losses which may delay any short-term recovery. Missouri's economy continues to struggle. A recent study of regional economies showed that Missouri was one of about a dozen states still in recession, with 30 states near recession. The Fiscal Year 2004 budget presents the most difficult challenge to face the Governor and the General Assembly since the Depression.

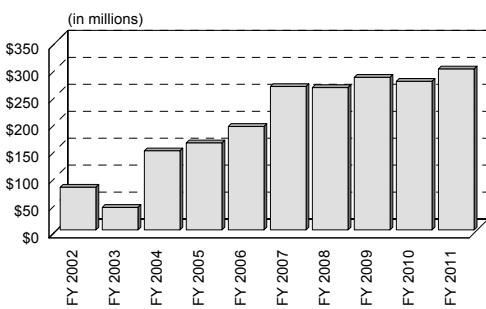
Nearly every state across the country is facing a fiscal crisis. The National Governors' Association, in a recent report, said that states are facing "the most dire fiscal situation since World War II." The Center on Budget and Policy Priorities states that "the budget deficits now looming over state governments will likely reach \$60 billion to \$85 billion in state Fiscal Year 2004 and constitute the largest state budget gaps in half a century."

As demonstrated by the following graphs, the increasingly tight budget is due to a combination of factors, including:

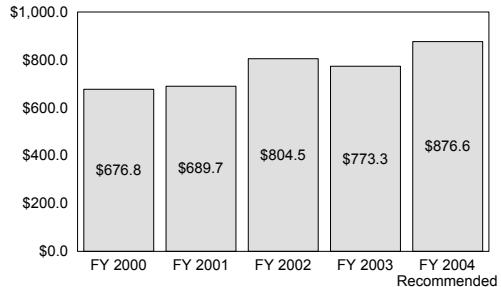
- The overall weak performance of the stock market.
- Declining rates of sales, corporate, and individual tax revenues coming into the state, primarily due to the recession.
- Substantial increases in medical costs in the Medicaid Program and for state employees.
- Growth in the prison population.
- An eroded tax base due to the negative impacts of federal tax reductions, corporate tax loopholes, and the escalating costs of state tax credits passed in previous years.



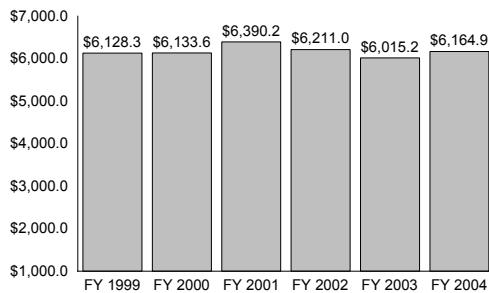
Loss to Missouri Revenue from Federal Tax Cuts



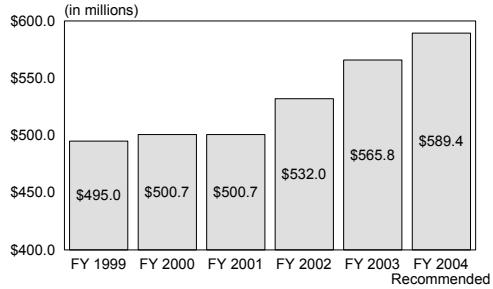
Medicaid GR Expenditures (in millions)



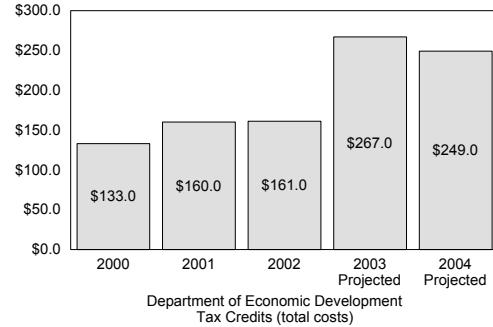
Stagnant Net General Revenue Collections (in millions)



Increased Funding for Correctional Institutions



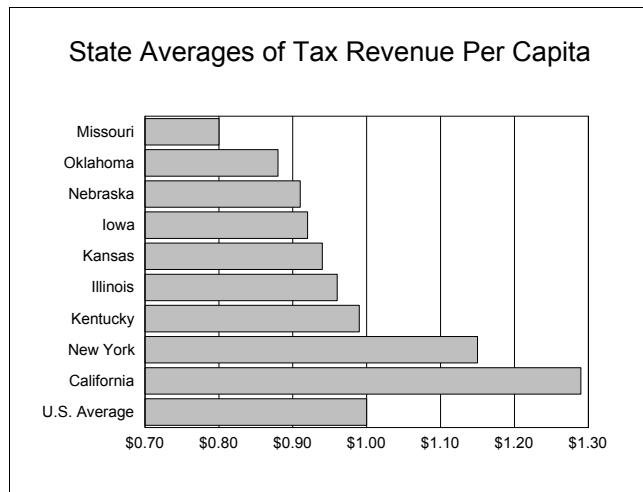
Tax Credit Growth (in millions)



Missouri - A Low-Tax State

In addition to being ranked one of the top managed states, Missouri continues to be a low-tax state. It is a "good deal" to live in Missouri and taxpayers get a "good deal" from their state government. Among all states, Missouri ranks 44th in state government expenditures per capita. For each dollar an average U.S. citizen pays in

state taxes, the average Missouri citizen pays only 80 cents. Missouri state taxes are 20 percent below the U.S. average and among the lowest in the region. Missouri corporations pay less taxes per capita than any other state with a corporate tax. By any objective measure, Missouri is a low-tax state as the table below demonstrates.



Recent Rankings on Missouri Revenues and Expenditures (as compared with all 50 states)

		<u>Date</u>	
State Revenues			
State Government Own Source Revenue (Per Capita)	Morgan Quitno	2002	42
Total Revenue - State and Local (% of Personal Income)	Governing Magazine	2002	40
Total Revenue - State and Local (Per Capita)	Governing Magazine	2002	42
State Revenues (Per Capita)	U.S. Census Bureau	2002	43
Corporate Income Tax - State (Per Capita)	U.S. Census Bureau	2002	46*
Total Taxes (Per Capita)	U.S. Census Bureau	2002	44
State Expenditures			
State Government Expenditures (Per Capita)	Morgan Quitno	2002	44
Total Spending - State and Local (% of Personal Income)	Governing Magazine	2002	44
Total Spending - State and Local (Per Capita)	Governing Magazine	2002	47
State Expenditures (Per Capita)	U.S. Census Bureau	2002	44

*Four states do not levy a corporate income tax.

Core Budget Review

Immediately after taking office, the Governor implemented a detailed review of existing programs for each executive branch department's budget. Each state agency was required to submit options to cut their budgets and prioritize what should be preserved. The Governor directed them to focus on generating administrative savings while preserving high-priority programs. Governor Holden has aggressively cut \$1.05 billion from the general revenue budget in three years.

Medicaid Cost Controls

To address escalating health care costs in Missouri, the Governor's budget includes numerous cost containment measures to curtail Medicaid expenditures. Even with the implementation of these cost containment efforts, Governor Holden continues his commitment that children receive access to vital health care coverage. No child will lose health insurance coverage as a result of these cost control efforts. The Governor's Fiscal Year 2004 budget proposes \$138.5 million in reduced general revenue costs by expanding pharmacy controls, requiring copays on many services, implementing a more efficient non-emergency transportation system, reducing pharmacy reimbursement to a level more consistent with private health care systems, and other measures.

Early Retirement

State government needs to get smaller. Providing an early retirement incentive during a "window" period is an effective practice of corporations seeking to reduce their workforce and the associated salary and benefit costs. The goals of an early retirement incentive are to decrease the number of employees, reduce personnel costs, and reorganize the workforce. A number of states adopted early retirement incentives last year as a means of dealing with their fiscal problems and more will likely follow this year. Within Missouri, the Department of Conservation and the University of Missouri have implemented successful early retirement incentives twice during recent years.

Current pension benefits are not sufficient to entice very many state workers to retire when they are first eligible - only about 25 percent of eligible state employees take advantage of the state's 80 and out retirement provision. The major reason that so few state workers retire at the earliest opportunity is the dramatic increase in health care costs they must pay when they become retirees. State government salaries are substantially lower than private sector salaries so most workers cannot afford the dramatic increase in health care premiums.

The Governor's proposed plan would provide four years of additional service as an incentive to retire. However, the plan recognizes that simply offering to add years of service credit is unlikely to sufficiently entice state workers to retire and save the state money. Accordingly, the plan also recommends that the state treat the retirees who take this option like active employees for health care premium purposes. From the time they retire until they are eligible for Medicare those that retire under the Governor's plan will pay the same amount for health care coverage as active state employees. This should be a powerful incentive. Employees will be given a 90-day window to decide whether they will retire under this temporary provision.

The early retirement incentive is anticipated to save the state \$24 million. These savings are achievable only because the state is expected to refill no more than 25 percent of the positions of those who leave and the average salaries for those who do fill these positions should be lower than the salaries of those who retired. The Office of Administration will be given the responsibility to work with the agencies and decide which positions will be refilled. The savings from the plan will be core cut from each agency in the Fiscal Year 2005 budget to ensure that the state gets permanent savings from the plan.

Additional Administrative Savings

Over the past year, the Governor has directed a review of administrative costs to eliminate inefficient spending and improve the operations of state government. In addition, state agencies have been directed to eliminate out-of-state travel, except for functions that are critical to their mission. Over the next year, the Governor will implement the following measures to achieve additional administrative savings.

Sell State Aircraft

The state has, for many years, owned and operated a fleet of airplanes used by agency personnel and elected officials in order to limit travel time and make more efficient use of it, when necessary. One result of the recent budget difficulties is the reduction in flight demand, which has, in turn, resulted in excess capacity in the state's aircraft fleet. To reduce costs and streamline services, the state will sell its jet and two planes and replace them with one more efficient plane, generating \$1 million.

Reduce the Number of State-Owned Vehicles

The state's vehicle fleet contains over 4,900 vehicles. In order to generate savings, the Governor will:

- Mandate at least a ten percent reduction in the state vehicle fleet.
- Prohibit the use of state vehicles to commute to and from work.
- Eliminate vehicles assigned to individual state employees.
- Place a moratorium on the purchase of new vehicles, except for critical replacements.

Vehicles used to ensure the safety of Missouri citizens, such as the Highway Patrol, will be excluded from these reductions.

Reduce Printing and Mailing Costs

State agencies are required to produce hundreds of reports and publications; many of these are annual reports required by law. In the world of expanding technologies, the state should make more of their publications available over the Internet, thereby reducing paper, printing, and storage costs. In addition, state agencies should identify areas where mailings can be done through e-mail or posted on the Internet. To achieve additional savings in this area, the Governor will direct state

agencies to reduce the number of publications, where possible, and reduce the costs of printing and distributing mandatory reports.

Consolidate State Office Space

In recent years, the state has co-located agencies, where possible, to provide better access for clients and decrease costs. Consolidating numerous leases by several state agencies into one location reduces space needs by combining conference, break, restroom, and other common areas. In addition, in rural areas several state agencies rent space for only one or two persons. These smaller, individual spaces could be vacated and staff moved to larger leased facilities. The Governor has directed the Division of Facilities Management to further consolidate existing space.

Eliminate Excess Warehouse Space

State agencies individually lease storage space across the state to house the excess materials they need to conduct business. The Governor has directed the Office of Administration to reduce the amount of leased storage and coordinate the sharing of agency warehouse space.

Commission on Efficiency and Fiscal Management

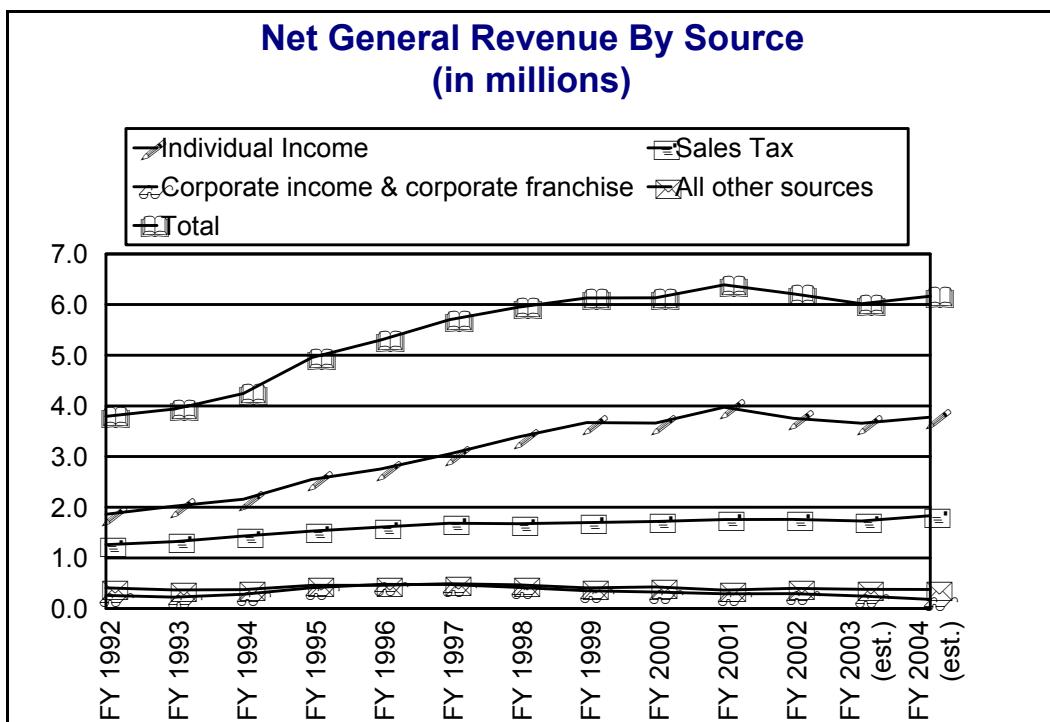
Even though the Governor has spent the past two years improving efficiency and reducing spending throughout state government, he has welcomed additional ideas and recommendations from the private sector. To gather additional ideas, the Governor will create the Missouri Commission on Efficiency and Fiscal Management in State Government Finances by executive order. The commission will immediately undertake a complete, comprehensive, and thorough examination of all aspects of the state's cash management practices, debt management practices, budgetary processes, personnel practices, and other areas relevant to sound business and financial management. The commission will provide recommendations to the Governor, General Assembly, and the citizens of Missouri on any additional ways to make the government of Missouri more efficient, effective, fiscally sound, and productive in business, finance, and cash and fiscal management.

Tax Collection Efficiency

Missourians were given an opportunity to come into compliance with the state's tax code in the just completed and successful tax amnesty. However, now that amnesty is completed the state will hire specially trained auditors, criminal investigators, and other staff to ensure all Missourians pay their fair share of taxes. In addition, the state will enter into a contingency fee contract to upgrade the Department of Revenue's collection system using a benefit-based agreement. The vendor will only be paid provided the system enhancements generate new revenue in excess of an agreed upon baseline. These efforts are expected to generate \$21.1 million in additional revenue.

Reduced Spending on Tax Loopholes

Governor Holden has ordered a thorough review of tax expenditures to identify problems with Missouri's existing tax code. Corporate income taxes have dropped from 9.0 percent of the state's general revenue in 1995 to only 4.8 percent last year. Aggressive tax consultants continue to find loopholes in our state laws. Some tax incentives are no longer achieving their intended purpose. In the fall of 2002, the Governor convened state leaders and held budget summits across the state to receive input from citizens and business leaders to address two important issues – government efficiency and the concern of working families and small businesses that carry more than their fair share of the tax burden.



Currently, Missouri tax law has areas that are not equitable or are poorly written, which has resulted in the state giving money away to corporations through special tax loopholes. Recent court decisions have exposed many ambiguities in Missouri tax law costing the state \$90 million in refunds, settlement payments, and millions more in lost revenue. In addition:

- Companies like Toys R Us and Home Depot use accounting loopholes to avoid paying Missouri corporate income tax. They use the “Geoffrey loophole,” named for Geoffrey, the Toys R Us giraffe, to set up a dummy corporation in another state and transfer their profits out of state to avoid paying Missouri taxes. This loophole is costing state revenues an estimated \$15 million annually.
- Many businesses avoid paying taxes by placing their assets in out-of-state banks, taking business away from Missouri institutions. This loophole encourages out-of-state investments and the use of out-of-state banks. Missouri may be the only state in the country that allows corporations to avoid paying taxes on this income, costing state revenues an estimated \$31 million annually.
- Buyers of large yachts that weigh over five tons do not have to pay regular state sales tax on their boats, while smaller boat purchasers must pay 100 percent of their assessed tax. Purchasers of large boats pay approximately one percent of the cost of the boat, while the purchasers of smaller craft pay the full six percent. Those who can afford a luxury yacht are not paying their fair share and costing state revenues an estimated \$4.2 million annually.
- Individuals seeking professional licenses and businesses that have contracts with the state are not checked against the Department of Revenue's database for outstanding state tax debt. The technology is available to easily conduct these matches. Checking the tax status of these individuals and businesses is expected to generate at least \$10 million annually.

2003 Legislative Initiative More Efficient Collections and Tax Expenditures

In order to level the playing field for Missouri companies, small businesses, and individuals, the Governor recommends increasing the collection of delinquent taxes and reducing spending on tax loopholes. The Governor proposes to:

Increase Collections Already Owed

Mandate Electronic Filing of Some Taxes - \$2.2 million. This portion of the proposal would mandate electronic filing of monthly and quarter-monthly withholding returns, corporate estimated tax payments, and quarter-monthly sales tax payments. This will ensure quicker deposit of funds into the state treasury.

Reduce Spending on Tax Loopholes

Geoffrey Loophole - \$15 million. Illinois and 25 other states have provisions that close this loophole.

Disallow Non-Missouri Source Income - \$31 million. Missouri should prohibit corporations from avoiding state tax payment on income from out-of-state investments.

Yacht Loophole - \$4.2 million. Buyers of luxury boats pay a reduced watercraft tax instead of Missouri sales tax.

Professional Licensing - \$10 million. Require individuals to receive a tax clearance to ensure that state-owned taxes are paid before doing business with the state or obtaining or renewing a professional license.

Refunds to Purchasers - \$10 million. Currently, a business that applies for and receives a sales tax refund for taxes they have inappropriately collected from customers is not required to even attempt to find and return the overpayment to the purchaser.

Common Carriers - \$9.8 million. Years ago the legislature enacted sales tax exemptions for purchase of trucks, parts, and repairs for "common carriers." When these exemptions were passed, every common carrier had to register with the federal Interstate Commerce Commission and only true common carriers, i.e., trucking companies for hire by the general public, could qualify. Now, anyone can register as a common carrier by paying a relatively modest fee and such registration is no longer required in most cases.

Franchise Tax Dissolution - \$1 million. Clarify the Secretary of State's authority to dissolve a corporation for not filing a franchise tax return.

Gambling Winnings - \$7 million. Currently, there is no Missouri law explicitly pertaining to a nonresident individual tax on winnings from a multi-jurisdiction lottery (including Power Ball) or from riverboat gambling. Residents must pay taxes on their winnings, so should nonresidents.

Railroad Retirement Double Deduction - \$2 million. Currently, a taxpayer receiving railroad retirement benefits is not taxed on those benefits at the state level and also may deduct up to \$6,000 from their Missouri taxable income. This proposal will eliminate the double dipping of tax benefits.

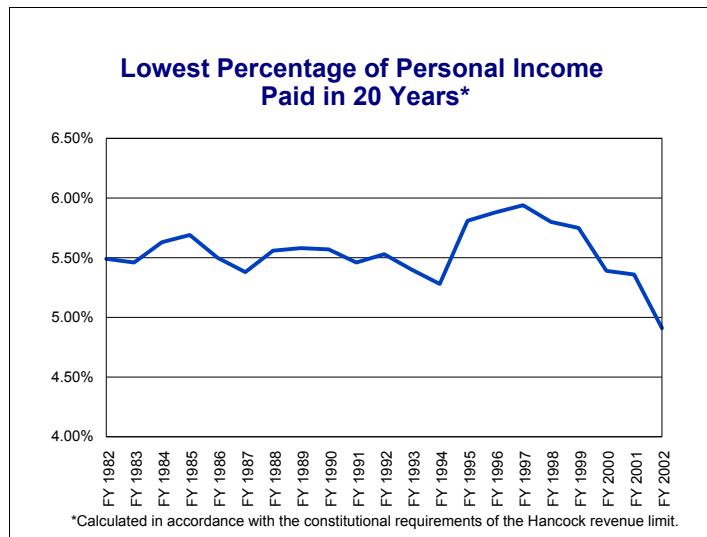
Eliminate Timely Filing Discount for Withholding Tax - \$18.4 million. Missouri businesses receive a discount for sending the income withholding taxes they collect from employees to the state. The state of Missouri is the only state that provides this discount.

Disallow the use of single factor apportionment - \$77.2 million. Unlike most states, Missouri gives corporate taxpayers a choice on how to apportion income to Missouri versus other states. Single factor apportionment is extremely generous to taxpayers who make most of their sales to out-of-state customers, but rely heavily on Missouri infrastructure because they have facilities and employees here.

Additional Revenue Generation

As outlined above, the Governor has aggressively cut \$1.05 billion from the general revenue budget in three years. The largest redirection of the state's spending priorities has occurred and administrative cuts have been deep. These actions have been required because net general revenue collections have essentially been flat for the past five fiscal years, a period during which costs of health care and corrections increased significantly.

The combination of the recession and factors mentioned previously have placed the state in dire financial circumstances. The state is well over \$1 billion below the constitutional revenue and spending limit – the most since it was established. As measured by the state's revenue limit, Missourians are now sending a smaller percentage of their personal income to state government than at any time since enactment of the limit in 1980.



Even with state agency core cuts, closing tax loopholes, and additional administrative savings there is still an ongoing revenue shortfall in Missouri's budget. The point has been reached that without a significant infusion of new revenue the state will fail in its mandated obligations to our citizens. The following is the fiscal reality that Missouri and many other states face:

- The state will be unable to protect against cuts to the Foundation Formula for local schools.
- Major budget cuts will be required in higher education, substantially increasing tuition for students and their families.
- Thousands of the elderly, the poor, and the disabled will have their medical and mental health services eliminated.

- Access to health care for low-income Missourians will be difficult because doctors, hospitals, and other providers could see their payments dramatically reduced.
- Public safety protections will be reduced, thereby jeopardizing all of the progress the state has made in lowering the crime rate in Missouri.

If vital services are to continue, the solution must be four-fold: downsize state government, increase collection of taxes already owed, reduce spending on tax loopholes, and raise additional revenue. Governor Holden has tackled the first three solutions. Now, the Governor will work with the General Assembly and voters to address the fourth.

2003 Legislative Initiative Generating Additional State Revenue

The Governor recommends a revenue package to address current and ongoing revenue shortfalls. This will not include a general tax increase on Missourians. The Missouri Constitution requires portions of this package be sent to a vote of the people. The Governor recommends the following.

Raising Gaming Revenues for Education

- Increase the admission fees to gaming boats by \$2. The state and the home dock city or county share proceeds from the current \$2 admission fee - \$106 million.
- Remove the current provision that limits to \$500 the amount riverboat gaming patrons may lose during each two-hour cruise. Missouri is the only state that employs a loss limit - \$57 million.
- Increase the adjusted gross receipts tax on riverboat gaming from 20 to 22 percent. This tax is paid by riverboat operators on the amount lost by patrons - \$30 million.

Increasing the Cigarette Tax for Health Care

Tobacco use in Missouri is one of the highest in the nation; 27 percent of adults smoke. Even more alarming are studies that show one-third of Missouri teenagers are smoking. As a result, Missouri ranks well above average in smoking-related diseases such as heart disease, cancer, and emphysema. Disease due to smoking increases costs for all health care plans, including Medicaid. \$279 million will be used to pay the rising costs of health care.

Raising Other Revenue to Meet the Shortfall

- Place a surcharge of five percent on the individual income tax on taxpayers with taxable incomes greater than \$200,000 - \$12 million. Currently, an individual with taxable Missouri income of \$200,000 owes the state about \$12,000 in taxes. The proposal will increase his/her taxes by \$600 a year.
- Permanently eliminate the use of the federal accelerated depreciation on Missouri tax returns - \$66 million. Accelerated depreciation will still be allowed on federal returns. In 2002 the General Assembly passed Senate Bill 1248 which placed a one-year moratorium on federal accelerated depreciation.
- Allow the state's elected officials to determine the level of Missouri taxes, not the federal government. Federal tax code changes will have to be statutorily confirmed by the General Assembly and signed by the Governor before they will be allowed to affect, either increase or decrease, Missouri taxes.

Cutting Taxes to Stimulate the Economy

- Reduce the corporate tax rate by one percentage point from 6.25 percent to 5.25 percent. The reduction will help provide an economic incentive to Missouri businesses and spur economic activity. The estimated revenue loss is \$28 million.
- Provide a State Sales Tax Holiday. A three-day sales tax holiday every August to help citizens with back-to-school purchases. The holiday will also help Missouri businesses and attract people from surrounding states. The estimated revenue loss is \$5 million.

MANAGING FOR RESULTS CREATING A MORE EFFICIENT GOVERNMENT

State Government Reorganization

It has been 30 years since the last comprehensive reorganization of state government. Since that time, numerous programs and entities have been added to state government resulting in the duplication and overlap of many state services. Governor Holden has been reviewing the structure of state government since he took office. The Governor is committed to integrating departmental operations to improve the way the state delivers services. Given Missouri's current budget situation, state government must look at areas where it can do more with less.

In addition to core reductions, Missouri must streamline state government and make it as efficient as possible. Restructuring key services will improve the way state government delivers services to the taxpayers of Missouri. Governor Holden proposes restructuring several areas of state government which will achieve \$4.9 million in savings and \$3.6 million reinvested from staff savings; 169 positions will be cut. To improve departmental operations in the interest of economy, efficiency, and better service, Governor Holden will file reorganization plans with the General Assembly to improve the operation of the state's executive branch by:

- Consolidating Workforce Development functions in the Department of Economic Development. Temporary Assistance for Needy Families, Food Stamp Training, and Parents Fair Share workforce programs will be transferred from the Department of Social Services.
- Eliminating two divisions of state government while shifting their most critical functions to existing state agencies with similar missions. The Division of Highway Safety will be eliminated and its functions transferred from the Department of Public Safety to the Department of Transportation. The Division of Child Support Enforcement will also be eliminated. Its payment and receipts functions will be transferred to the Department of Revenue and its support establishment functions will go to the Family Support Division in the Department of Social Services.
- Creating a Children's Division to focus on children in state custody and those at risk of abuse or neglect.
- Replacing the Division of Family Services. The Division of Family Services income maintenance functions will be streamlined in the Family Support Division.
- Eliminating the Division of Highway Safety and transferring its functions to the Department of Transportation.

Governor Holden's 2003 Reorganization Plan

Components by Department	Savings	Staff Cut
Department of Social Services		
<i>Eliminate the Division of Child Support Enforcement</i>		
Child Support Enforcement Payment Processing Transferred to Department of	\$17,565	1
Parent's Fair Share Program Transferred to Department of Economic	\$2,424,987	48
Paternity and Support Establishment Transferred to the Family Support	\$0	
<i>Replace the Division of Family Services</i>		
New Children's Division Established for Children's Services Programs	\$0	
Child Fatality Review Panel Transferred to the Division of Legal Services	\$0	
TANF Workforce Activities Transferred to Department of Economic	\$1,143,585	106
Select County Offices Closed	\$232,726	
Food Stamp Employment Training Transferred to Department of Economic	\$0	
Income Assistance Programs, Eligibility Determination, and Blind	\$0	
Other Administrative Reductions	\$310,438	4
Department of Public Safety		
<i>Eliminate the Division of Highway Safety</i>		
Highway Safety Transferred to Department of Transportation	\$196,467	9
Department of Economic Development		
<i>Streamline Services</i>		
MOICC Transferred from Department of Elementary and Secondary Education	\$30,000	1
Business Development and Business Expansion Merged into a new Business	\$535,051	
	<hr style="width: 100px; margin-left: 0; border: 0.5px solid black;"/>	
	\$4,890,819	169

Summary of Governor Holden's Reorganization Plan

Governor Holden Proposes	Benefits
Workforce Development Create a one-stop agency for workforce and employment services	<ul style="list-style-type: none"> • Saves \$3.6 million and refocuses \$3.5 million on support services, work activities, and training for clients. • Gives one state department responsibility for both job creation and placement. • Creates a one-stop career system with “no wrong door” access. • Creates a single point of contact for businesses on workforce issues. • Increases the number of TANF and Parent’s Fair Share clients getting a job. • Provides a common intake process, eliminating bureaucracy and improving services for clients. • Eliminates existing duplication of effort.
Highway Safety Coordination Eliminate the Division of Highway Safety and consolidate all highway safety functions in the Missouri Department of Transportation	<ul style="list-style-type: none"> • Saves \$196,467 and nine staff. These savings will be redirected to road maintenance and construction. • Provides coordination of highway safety efforts by one department. • Eliminates the so-called diversion of highway funding related to highway safety.
Family Support Eliminate the current Division of Child Support Enforcement and combine income support programs into one division	<ul style="list-style-type: none"> • Increases child support collections by moving payment and receipt functions to the Department of Revenue (DOR). DOR is the state’s primary payment collector and has the greatest expertise in collecting payments on behalf of the state. • Focuses the Department of Social Services (DSS) on their area of expertise - establishing paternity, medical, and income support for children. These functions will be handled by the new Family Support Division.
Child Protective Services Create a Children’s Division in DSS	<ul style="list-style-type: none"> • Focuses DSS efforts on child protective services. Previously the Division of Family Services was split between providing child protective services and administering income maintenance programs. • Increase the level of accountability for programs providing services to abused and neglected children.

Managing for Results

Governor Holden knows that Missouri state government needs to continue to operate smarter and more efficiently. The Governor is committed to holding state government agencies accountable to a higher standard of performance and quality. His business-like approach to managing state government focuses on setting priorities, measuring success, making better decisions, and communicating results.

Governor Holden's Managing for Results Initiative (MRI) is a long-term commitment to doing business more efficiently and effectively, keeping government focused on results, and driving meaningful improvements for Missouri citizens. A critical component of MRI is improving agency performance. MRI helps departments focus on customer satisfaction, process improvement, and problem solving. Agency projects have saved millions of dollars and countless hours for Missouri citizens and state employees. Descriptions of these projects can be found at the MRI website (www.mri.state.mo.us). Some select MRI projects that have already made significant progress include:

Workers' Compensation Team – Changes are being implemented to get injured workers back to productive work more quickly. It is anticipated that the changes the team has implemented will result in a \$1.5 million reduction in workers' compensation costs to the state and an additional 40,000 days of productivity.

Child Support Enforcement Team – Changes are being implemented that will increase the amount of money reaching custodial parents to help support their children. So far, undistributed collections have been reduced by 50 percent.

Department of Transportation Team – Recommendations are being put in place to reduce the number of projects where actual costs exceed the original projection. These changes should reduce these cost overruns from the current 72 percent of projects down to 15 percent, saving millions of state highway dollars.

Water Quality Permits Team – Improvements are being implemented to reduce the time it takes to issue water quality permits by the Department of Natural Resources. These changes will reduce the time it takes to receive state permits by two months, freeing staff to spend more time on inspecting sites to ensure the quality of Missouri's water meets state and federal standards.

Governor Holden's Managing for Results Initiative also focuses on ensuring state government is being held accountable for key results. Three goals have been established with specific results and corresponding measures identified for each goal. The measures provide a means for identifying historical trends, monitoring recent progress, and, when possible, comparing Missouri to the nation as a whole. The goals and results, also found at www.mri.state.mo.us, illustrate Governor Holden's commitment to ensure that:

- Missouri is a Leader in Education
- Missouri is Developing a 21st Century Economy
- Missouri is a Safe, Healthy Place to Live and Work

Program Accountability Proposal

Although Missouri has been nationally recognized for its systematic review of core budgets, the current budget challenge requires even closer scrutiny of existing programs. It is critical that new programs are reviewed to ensure the results originally intended are achieved. Therefore, Governor Holden encourages the General Assembly to consider enacting a Missouri sunset law.

2003 Legislative Initiative Automatic Sunset Date for New Programs

Governor Holden recommends that new programs enacted in state statute include an automatic date that they will end, or sunset, if not renewed by the General Assembly. This proposal would:

- Require a review of every new program that will result in a recommendation to reauthorize, modify, or eliminate the program based on its performance.
- Establish program reviews by the staff of the Joint Committee on Legislative Research. Program review recommendations will be submitted annually to the Governor and General Assembly.
- Eliminate or modify programs that are not successful.
- Trigger reauthorization legislation on programs that are found to be meeting performance results and providing benefits that outweigh their costs.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Missouri is a Leader in Education

“Protecting our investment in education is the most important step we can take to provide better opportunities for our children and to provide jobs for the future.”

Governor Bob Holden

The Holden administration's top priority will always be K-12 education. Our children – and our ability to compete in the new economy of the 21st Century – depend on the state's investment in public education. In his first two years, Governor Holden accomplished the following to improve the state's investment in public education:

- Secured \$213 million in Fiscal Year 2002 to increase funding for the state's School Foundation Formula and At-Risk Program. Funding during the current fiscal year increased \$135 million, despite declining revenues and cuts in other areas of state government.
- Signed legislation to meet the increasing costs of K-12 education through the Foundation Formula by establishing a Schools for the Future Fund. The bill generated an estimated \$25 million for Missouri schools. Senate Bill 1248 was signed into law June 19, 2002.
- Proposed landmark legislation to establish a means to recognize high-performing schools and school districts, as well as placing certain requirements on schools not meeting basic academic standards. House Bill 1711 was signed into law June 19, 2002.
- Appointed the Missouri Business Education Roundtable to examine current and projected needs for teachers in public schools, the effectiveness of current policies and programs that focus on the recruitment of teachers, and the unique needs and concerns of hard-to-staff schools.
- Recommended legislation to require report cards on academic performance and school conditions at the building level. Senate Bill 575 and House Bill 865 were signed into law on June 14, 2001.
- Signed legislation to ensure that assets from criminal forfeiture cases benefit the School Building Revolving Fund. Senate Bill 5 was signed into law May 17, 2001.
- Established the Missouri Math Academy to improve mathematics instruction. The academy is expected to train 110 teachers in 2003.

Throughout the past two years, Governor Holden renewed his commitment to making K-12 education the number one priority of his administration by ensuring that withholdings did not harm public schools or Missouri students. In Fiscal Year 2003, when 17 other states cut funding for local schools, the Governor fought hard to obtain a \$135 million increase for the Foundation Formula. For Fiscal Year 2004, the Governor recommends that the Foundation Formula be protected from budget reductions being implemented on other state agencies. Maintaining funding at the same level as Fiscal Year 2003, in these difficult economic times, will help public school districts provide vital services. Governor Holden also recommends funding to continue school accountability and retain quality teachers.

FUNDING PUBLIC ELEMENTARY AND SECONDARY EDUCATION

In the Fiscal Year 2004 budget, Governor Holden's number one priority is to balance the budget without cutting funding for Missouri's 524 local public school districts. With budget reductions being taken across state government, the Governor has fought to protect core funding for K-12 education. Continued funding of the Foundation Formula will assist school districts in providing vital services and essential tools students need to succeed in school. The Foundation Formula provides funds to:

- Improve student academic achievement.
- Lower class sizes.
- Provide professional development opportunities to teachers and school administrators.
- Provide resources for school districts to improve curriculum.

The Governor recommends \$2.2 billion for the state's Foundation Formula for public education.

The Governor is adamantly opposed to removing the gaming proceeds from the Foundation Formula and putting them into a Classroom Trust Fund. If the Foundation Formula funding is cut, school districts would encounter difficulties in retaining and attracting qualified teachers, keeping class sizes low, and providing remediation and enrichment programs that help students succeed. Such a measure would take money away from rural, small, and poorer districts and give it primarily to suburban, more affluent school districts. It will also invite expensive litigation on both the equity and adequacy of state funding. Every school district in Missouri deserves to have the same, equitable distribution of funding.

The Governor's priority of protecting current levels of funding for K-12 schools has not been easy. In Fiscal Year 2004, the state faces a revenue shortfall of \$1 billion. Cuts to other state agency programs will be necessary. Despite this, the Governor continues his commitment to take every means possible to protect public school funding. Last year, the General Assembly funded increases to the Foundation Formula with one-time monies. In order to maintain the Fiscal Year 2003 level of support on an ongoing basis, the Governor proposes additional resources generated by gaming proceeds.

Character Education

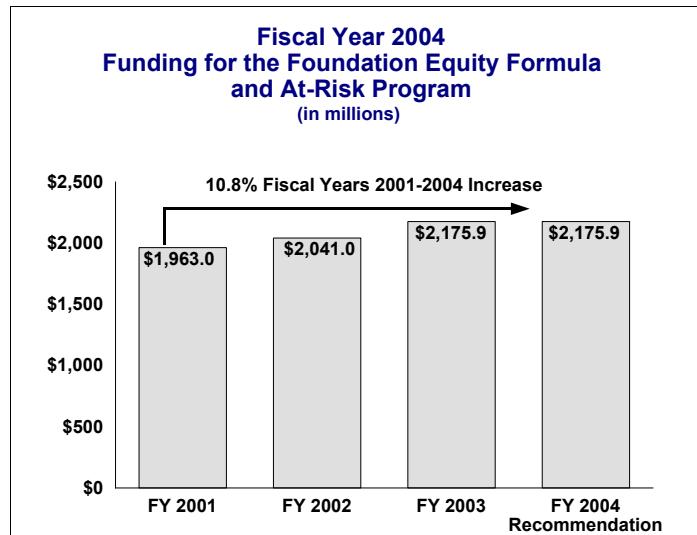
Effective character education is an essential part of educating Missouri children and is key to ensuring productive learning environments. Research indicates character education:

- Reduces the number of classroom incidents requiring disciplinary referrals.
- Increases students standardized test scores.
- Decreases physical aggression and promotes positive social interactions with peers.

Character education helps students understand their future responsibility as citizens. In 2002, the General Assembly cut funding to expand character education programs to all school districts. In Fiscal Year 2004, the Governor recommends \$600,000 federal funds, secured by the state Department of Elementary and Secondary Education, to expand character education.

**STATE AID TO LOCAL SCHOOL DISTRICTS
(Not Including Desegregation)**

	FY 2003	FY 2004
School Foundation Program		
Equity Formula and At-Risk	\$2,175,891,721	\$2,175,891,721
Transportation	162,067,713	162,067,713
Gifted	24,870,104	24,870,104
Special Education	149,617,982	149,617,982
Remedial Reading	11,096,925	11,096,925
Early Childhood Special Education	69,621,995	81,274,784
Career Ladder	38,454,774	38,069,056
Vocational Education	52,880,428	52,880,428
Parents As Teachers	<u>30,304,651</u>	<u>30,304,651</u>
Subtotal Foundation Program	\$2,714,806,293	\$2,726,073,364
Other State Aid		
A+ Schools Program	\$ 18,525,000	\$ 18,525,000
Technology Grants	13,969,696	8,833,381
Adult Literacy	500,000	500,000
Safe Schools Grants	7,675,000	7,122,368
Proposition C Sales Tax	691,456,241	693,947,458
Fair Share Cigarette Tax	22,929,326	23,225,250
Free Textbook Fund	74,225,850	89,650,000
School Food Program	3,460,219	3,460,219
Early Childhood Program	15,136,800	16,545,112
DSS/DMH School Placements	<u>7,293,331</u>	<u>10,099,537</u>
Subtotal Other State Aid	\$ 855,171,463	\$ 871,908,325
Total State Aid to Local Schools	\$3,569,977,756	\$3,597,981,689



2003 Legislative Initiative Maintaining Funding for the Foundation Formula

In order to continue support for K-12 education at the current Fiscal Year 2003 level, additional revenues are necessary. The Governor recommends continuing the state's successful use of gaming proceeds and other measures to raise \$193 million for public education by:

- Increasing the admission fees to gaming boats by \$2. The state and the home dock city or county share proceeds from the current \$2 admission fee.
- Removing the current provision that limits to \$500 the amount riverboat gaming patrons may lose during each two-hour cruise. Missouri is the only state that has a loss limit.
- Increasing the adjusted gross receipts tax on riverboat gaming from 20 to 22 percent. This tax is paid by riverboat operators on the amount lost by patrons.

Riverboat Gaming Proceeds for Education

All riverboat gaming proceeds in excess of the amount transferred to the School District Bond Fund must be transferred by law to the State School Moneys Fund for the Foundation Formula. For Fiscal Year 2004, the Governor recommends transferring \$450,000 in gaming proceeds to the School District Bond Fund for use by the Missouri Health and Education Facilities Authority (MOHEFA) to pay costs associated with school bond issues and credit enhancement. The Governor recommends that the remaining \$318 million be transferred to the State School Moneys Fund. In addition, the Governor recommends \$106.3 million from increases in riverboat admission fees be transferred to the State School Moneys Fund for the Foundation Formula.

Lottery Proceeds for Education

Article III, Section 39(d) of the Missouri Constitution, approved by voters in August 1992, requires all net proceeds from the State Lottery be appropriated solely for elementary, secondary, and higher education. During Fiscal Year 2004, \$191.1 million will be available from lottery revenues for education. The Governor recommends \$116.8 million to support programs in the Department of Elementary and Secondary Education and \$74.3 million to support programs in the Department of Higher Education. The Governor recommends allocating estimated lottery revenues as shown on the following page.

LOTTERY PROCEEDS FOR EDUCATION

During Fiscal Year 2004, \$191.1 million will be available from lottery revenues for education. Of this amount, \$186.9 million is from anticipated Fiscal Year 2004 revenues. The remaining \$4.2 million is from revenues generated, but not expended, during prior fiscal years. The Governor recommends allocating estimated lottery revenues as follows:

<u>ELEMENTARY AND SECONDARY EDUCATION</u>	
• Character Education	\$ 250,000
• A+ Schools	8,696,486
• Safe Schools/Alternative Schools	1,822,368
• Advanced Placement/Dual Credit	711,786
• Information Technology Grants	7,000,000
• Transportation	78,371,749
• Early Childhood Special Education	6,460,897
• Special Education	3,762,000
• Gifted	198,351
• DSS/DMH Public Placements	2,083,935
• Research Contract	110,880
• Early Grade Literacy	145,000
• State Schools Operating Maintenance and Repair	342,754
• Vocational Rehabilitation	1,400,000
• Minority Scholarships	200,000
• Scholars Academy	158,156
• Missouri Assessment Program	874,321
• Missouri Assessment Program Expansion*	<u>4,200,455</u>
SUBTOTAL	\$ 116,789,138
<u>HIGHER EDUCATION</u>	
• Four-Year Institutions Operations	\$ 46,969,759
• Four-Year Institutions Operating Maintenance and Repair	18,893,066
• Community Colleges Operations	3,633,814
• Community Colleges Operating Maintenance and Repair	2,062,778
• Missouri College Guarantee Program	<u>2,750,000</u>
SUBTOTAL	\$ 74,309,417
TOTAL	<u>\$ 191,098,555</u>

*Increased funding

INCREASING ACCOUNTABILITY AND IMPROVING STUDENT PERFORMANCE

Governor Holden believes every child is entitled to a quality education. The Governor has made it a priority to increase the accountability of Missouri schools. In 2001, the Governor proposed, and the General Assembly enacted, legislation to provide report cards for each school to parents, school patrons, taxpayers, and their communities. In 2002, the Governor signed into law House Bill 1711 that created an accountability system that rewards high-performing schools and places certain requirements on schools not meeting academic standards. The Governor continues to promote the need for improvement in accountability and student performance.

Quality Teachers

National studies show that turnover in the teaching profession is higher than most other professions. Most of the turnover occurs with new teachers; in Missouri, 36 percent leave the profession within five years. In addition, research has indicated that financial incentives are necessary to attract high quality teachers to low-performing schools because they continue

to be the most difficult to staff. The demands of these jobs are rarely reflected in the salaries offered to teachers who fill them. Teaching is one of the few professions where there is no salary differential for the top recruits. Most teacher salaries are determined by a single, district-wide schedule; salary increases are not tied to job performance. In 2002, Missouri's K-16 Coalition recommended a financial incentive program to help attract highly qualified teachers to work in Priority (low-performing) Schools in Missouri. This recommendation is based on research showing that Priority Schools tend to have the largest proportion of inexperienced and poorly qualified teachers.

With enactment of Governor Holden's 2002 initiative to reward high-performing schools and focus resources on schools that are not meeting academic standards, Missouri is now focusing on Priority Schools. It has been shown that achievement test scores are tied to teacher quality. Typically, such schools have the most difficulty recruiting the top teachers. If these schools are going to make meaningful and sustained progress in raising student academic performance, they must have

2003 Legislative Initiative Incentives to Retain Quality Teachers

Priority Schools have a much harder time attracting and retaining high quality teachers. To address this growing problem across the state, Governor Holden recommends applying an existing scholarship program toward an incentive program to retain high quality teachers. The Governor proposes:

- Eliminating the existing Missouri Teacher Education Scholarship.
- Establishing, in its place, a new program, Retaining Quality Teachers. The program will provide incentive payments for highly qualified teachers. Payments of \$3,000 will be paid annually to eligible teachers for up to four years.
- Providing incentive payments to 500 new teachers each year. Incentives will be targeted to teachers who serve in Priority Schools.
- Teachers must be Missouri residents and meet stringent academic requirements in terms of college grade point average, other grades, and classroom performance evaluations.

additional means to attract and retain the best teachers.

The Missouri Teacher Education Scholarship Program was established in 1985 to provide a one-year benefit to students majoring in education. Missouri's problem is no longer getting college students to major in education, but to get them to actually teach once they graduate. The current program benefits a relatively small number of applicants each year and is very difficult to administer, requiring students to be tracked for six to ten years after admission. About 40 percent of those who receive the scholarship do not complete the required five years of teaching service in the public schools. Eliminating the current program and refocusing program funding will provide a more effective and efficient way to recruit and retain highly qualified teachers. The Governor proposes replacing the existing Missouri Teacher Education Scholarship with a program that will provide incentive payments to high-performing teachers willing to work in Priority Schools.

Accountability Report Cards

For the first time in Missouri history, report cards for every school in the state are available to the public. The new School Accountability Report Cards provide building-by-building information of accountability measures, including test scores, teacher experience levels, student-teacher ratios, dropout rates, and average spending per student. The information is available on-line at the state Department of Elementary and Secondary Education's website – www.dese.state.mo.us/schooldata.

MAP - The Missouri Assessment Program

Since 1995, the Missouri Assessment Program (MAP) has been the cornerstone for measuring educational accountability. It has provided the means for schools to review their curriculum, enhance instruction to include higher order thinking skills, and provide a more focused consistency in curriculum across grade levels. In Fiscal Year 2003, the General Assembly reduced funding for MAP to reimburse school districts for assessments in

communications and mathematics only. To continue his commitment to accountability, the Governor recommends \$4.4 million to reinstate assessments in the areas of science, social studies, and health education.

Schools of Distinction

In December 2002, Governor Holden announced 157 school districts to be recognized for Distinction in Performance. These schools were evaluated based on MAP test scores, ACT test scores, attendance and dropout rates, and other academic performance measures. To qualify, K-12 districts had to meet 11 out of 12 possible performance indicators. K-8 districts had to meet 5 out of 6 indicators. The criteria are more stringent than in previous years. The state's recognition confirms that school districts are making steady gains in all areas of academic performance.

Governor's Youth Cabinet

With reduced financial resources, Missouri will depend more and more on volunteers to help achieve our most important goals. For young people in particular, research has shown the value of their attachment to school and community in enhancing academic success while avoiding negative peer pressure. Governor Holden has worked with groups across Missouri, such as the Community Services Commission chaired by Lt. Governor Joe Maxwell, to lead an effort to energize the community spirit of Missouri, and young people in particular, to help achieve Missouri's highest goals. In October 2002, Governor Holden appointed a Youth Cabinet, comprised of 45 Missouri youth, to increase involvement in state and local issues. The Youth Cabinet represents the highest level youth advisory council formed by any state. Over the next year, the members will work directly with state cabinet directors to open a dialogue between the young people and decision-makers of the state. Due to the high level of interest, the Governor will continue to explore other means to engage interested young people throughout the state.

SUPPORTING HIGHER EDUCATION

In the new economy, the quality of a state's workforce has become an important element in economic development. Despite the current budget problems, Governor Holden remains committed to higher education. Even in the face of significant revenue shortfalls, no funding reductions have been made to the higher education institutions in the Fiscal Year 2004 budget.

Commission on the Future of Higher Education

The Governor has called for the establishment of the Missouri Commission on the Future of Higher Education, a statewide advisory commission that will address the challenges facing higher education and work to strengthen the link between higher education and economic growth in Missouri. The Governor understands that economic growth in the 21st Century is based on knowledge, innovation, and the use of technology. Missouri's higher education system plays a critical role in ensuring Missouri stays at the forefront of these technological advances and in supplying skilled workers that are necessary to stimulate continued economic growth in the state.

The Missouri Commission on the Future of Higher Education, first announced in December of 2002, will include business and civic leaders, representatives of two- and four-year higher education institutions, non-profit and other community groups, and elected officials. The commission, utilizing input from Missouri citizens and national experts, will:

- Develop higher education strategies to promote economic growth, educational opportunity, and a better quality of life.
- Recommend specific ways Missouri's higher education system can most effectively stimulate economic growth.
- Analyze how Missouri can best invest its current higher education resources.

- Establish new higher education funding strategies, including securing private investments and additional federal government resources.
- Work with the education community to ensure there is cooperation and collaboration within and across educational levels and sectors, rather than competition.

With the assistance of the Missouri Commission on the Future of Higher Education, Governor Holden will work to ensure that Missouri has a flourishing system of higher education that effectively promotes economic growth, operates in the most efficient manner possible, and responds to the diverse needs of its customers. The Commission will produce a report of their recommendations by December 31, 2003.

Needs-Based Assistance for College Students

The Missouri College Guarantee Program provides scholarships based on financial need to Missouri students who meet specified academic standards. The program is designed to serve Missouri's neediest students regardless of institutional choice. Governor Holden recommends \$500,000 of additional ongoing funding for the program to ensure that the number and amount of Missouri College Guarantee scholarships awarded are maintained at current levels. The increased funding is necessary because one-time fund balances, which have been used in previous years to fund scholarships, have been exhausted.

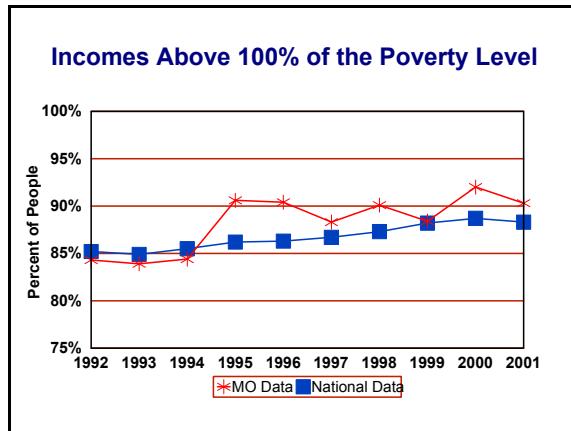
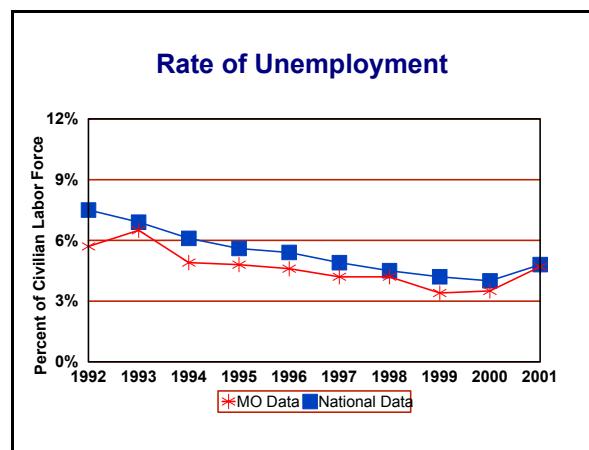
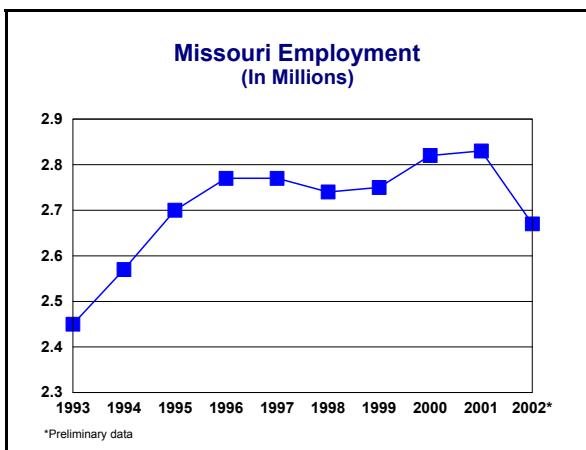
MISSOURI BUDGET AND LEGISLATIVE AGENDA

Building Jobs for the Future

"The key to economic recovery and job growth in Missouri is knowledge, innovation, and technology. Now more than ever we must invest wisely to build jobs for the future."

Governor Bob Holden

Missouri's unemployment rate remains slightly below the national average. In addition, as seen by the graphics below, the percentage of Missourians with incomes above the poverty level remains higher than the nation while the number of Missourians employed has declined. Missourians are concerned about the loss of jobs and the outlook for the state and national economies. The national recession's impact on the state's economy has been significant. Governor Holden will continue to lead Missouri through these tough economic times. The Governor understands that even though revenues are short, the state must continue to invest in innovative ways to create jobs for tomorrow through education and workforce development; by increasing business productivity; and by making our urban and rural communities competitive. Missouri's economic future depends on the investment choices made today. The Governor's Fiscal Year 2004 budget and legislative agenda focuses on creating jobs for Missouri's future.



In his first two years, Governor Holden accomplished the following to improve the state's economy:

- Proposed legislation to better utilize the state's job training incentives to provide training to new employees of life sciences and medical research companies. Consortia of small businesses with similar training needs will now be able to submit one shared application, and investments in technology can be considered under the Customized Training Program. Senate Bill 500 was signed into law June 20, 2001.
- Issued an Executive Order supporting downtown revitalization and historic preservation efforts in cities and towns of all sizes across Missouri. The order has encouraged new state buildings and leased facilities to be located in central downtown districts throughout the state.
- Supported legislation creating the Farmland Protection Act. The bill also created additional jobs and opportunities for small entrepreneurs through the Agricultural Product Utilization Contributor and New Generation Cooperative Incentive Program. Senate Bill 462 was signed into law June 28, 2001.
- Convened an Economic Prosperity Summit with leaders of business, government, education, labor, and other groups to help determine the direction Missouri should take to ensure long-term economic growth in the new economy of the 21st Century.
- Supported the development of the first State Technology Plan, which was designed to suggest the best uses of the state's limited funds to further economic development for the citizens and businesses of Missouri.
- Ordered the development of a more customer-friendly way to access information about jobs and career planning services. The new web site, **www.greathires.org**, not only provides job seekers better access to employment opportunities, it also gives employers better access to qualified workers. A toll-free jobs hotline was also added (888-728-JOBS) that rings at the Missouri Career Center located closest to the caller.
- Appointed the One Missouri, One Agriculture Task Force to examine ways to improve the state's agricultural industry. In 2002, the Governor signed legislation that enacted many of the recommendations made by the task force. House Bill 1348 enhances ethanol and biodiesel production in Missouri, strengthens the state's AgriMissouri Marketing Program, authorizes the Missouri Department of Agriculture to certify products as organic, and increases funding for grape and wine research.
- Issued an Executive Order establishing a Life Sciences Research Committee in Missouri. The committee will leverage additional private and public funding resources providing research opportunities for Missouri's colleges and universities that will enhance food safety, increase agricultural production, enrich the state's environment, and improve the health of citizens.
- Convened an entrepreneurship academy designed to develop a climate in Missouri for small businesses and fast growing companies to prosper. The academy was established in cooperation with the National Governors' Association and the Kauffman Center on Entrepreneurial Leadership in Kansas City.
- Issued an Executive Order and signed legislation implementing the consolidation of motor carrier services to provide a "one-stop shop" for commercial vehicles that do business with the state.

Finally, by maintaining education as his number one priority, Governor Holden is building the foundation for developing a quality workforce for Missouri businesses in today's knowledge-based economy. Businesses will want to be where skilled people are, and talented people will want to stay in a place where they know they can send their kids to quality schools from Pre-K through higher education.

CREATING JOBS THROUGH INVESTMENT

Higher Education's Role in the Effort to Stimulate Missouri's Economy

Missouri's higher education system plays a critical role in ensuring Missouri stays at the forefront of technological advances and in supplying the skilled workers that are necessary to stimulate continued economic growth in the state. Even in the face of significant revenue shortfalls, no funding reductions have been made to the higher education institutions in the Fiscal Year 2004 budget. To solidify the connection between economic development and the role of higher education, the Governor will:

- Direct the Department of Higher Education to target efforts to increase the percentage of Missourians getting an education or training beyond high school that will lead to quality jobs.
- Charge the Department of Higher Education with responsibility for developing a joint strategy with businesses to retain Missouri college graduates in Missouri jobs, especially those graduates with knowledge critical to growth industries.
- Establish the Missouri Commission on the Future of Higher Education, a statewide advisory commission that will address the challenges facing higher education and work to strengthen the link between higher education and economic growth in Missouri.
- Recommend \$500,000 of additional ongoing funding for the Missouri College Guarantee Program which will ensure that the number and amount of scholarships awarded are maintained at current levels. The program is designed to serve Missouri's neediest students regardless of institutional choice.

Missouri's Workforce Services

Missourians need to be able to compete in the new economy. A productive, trained, and educated workforce enhances the state's ability to attract businesses. It is imperative that Missourians needing a job can access available services. Despite previous attempts to create a one-stop agency for workforce services, programs are still located in two different departments: the Department of Social Services and the Department of Economic Development. Since the Department of Economic Development works on a daily basis with Missouri employers and potential businesses, the department is keenly aware of the state's changing workforce needs. State job services should be located in one place, thereby creating a "no wrong door" approach to help unemployed Missourians obtain jobs.

The Governor proposes transferring Temporary Assistance to Needy Families (TANF), food stamp, and non-custodial workforce services from the Department of Social Services to the Department of Economic Development.

Recent budget cuts have limited the Department of Social Services' ability to deliver needed workforce assistance to Missourians who are utilizing TANF. The Department of Economic Development, Division of Workforce Development, is charged with getting unemployed Missourians into the workforce. The Division of Workforce Development, in cooperation with local Workforce Investment boards, has created valuable public/private partnerships and increased the number of Missourians entering the workplace. They have also increased the number of Missourians receiving services through the state who are able to maintain employment for longer periods of time. TANF recipients will now be fully integrated into Missouri's workforce development system and support services, such as transportation and training, will be coordinated by one entity. Consolidating the state's workforce activities for Missouri's unemployed and welfare recipients will:

- Give one state department responsibility for both job creation and placement in Missouri.
- Further move Missouri to a one-stop career system.
- Increase the number of trained and employed TANF and Parent's Fair Share clients.
- Create a single point of contact for businesses on workforce issues.
- Provide a common intake process for Missourians, eliminating bureaucracy and improving services for clients.
- Eliminate existing duplication of effort.

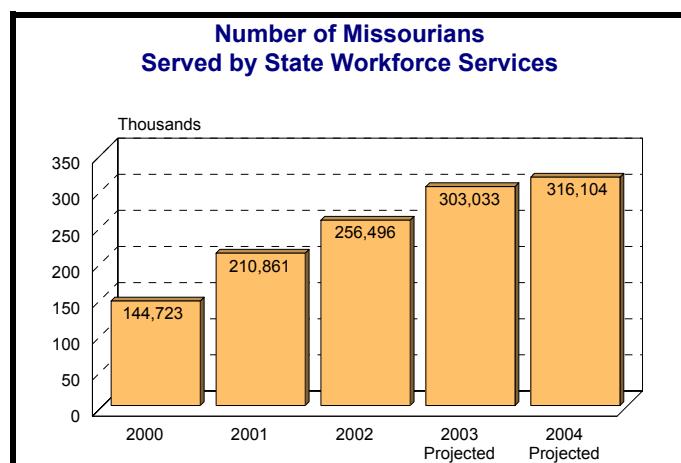
The Governor's proposed restructuring will save \$4.9 million and eliminate 169 staff positions. To better deliver the state's workforce services in more efficient and effective ways and to ensure that no workers are left behind, the Governor will:

- Transfer the Department of Social Services' workforce development functions to the Department of Economic Development's Division of Workforce Development.
- Co-locate the Family Support Division's income maintenance staff in Missouri Career Centers to provide one-stop, "no wrong door" access to necessary services that assist unemployed Missourians in getting a job.
- Transfer the Division of Child Support Enforcement's Parent's Fair Share Program to the Department of Economic Development's Division of Workforce Development, ensuring that Missouri's non-custodial, unemployed parents have access to comprehensive employment services and can support their children.
- Establish common intake, support services authorization, and Internet-based case management data sharing among departments that serve TANF clients.
- Transfer the Missouri Occupational and Information Coordinating Council from the Department of Elementary and Secondary Education to the Department of Economic

Development. This consolidates labor and employment market research efforts and will result in better and more timely occupation and career information for workers.

Additional Opportunities for Job Training

The Unemployment Insurance Trust Fund (UITF) currently is used to pay benefits to unemployed Missourians. Employers make contributions to the fund based on their past layoff actions. Since 1999, more money has been paid out of the fund each year than has been paid into the fund. The increase in the number of people who are unemployed has exacerbated the situation, and the fund will become insolvent in 2003. Missouri will borrow funds from the federal government during calendar year 2003 to pay unemployment benefits. Any money borrowed has to be repaid, with interest, by employers. It is imperative the General Assembly address the UITF issue this session. At the same time, there are increasing demands on businesses to maintain and upgrade the skills of their workers. Funds to assist businesses in this area are declining. Other states have developed successful worker-training programs through their UITF. The Governor strongly supports job training for Missouri workers. The Governor calls upon the General Assembly, as they address the issue of depleted resources in the state's UITF, to investigate ways in which other states have used assessment funds to provide job training and, if feasible, incorporate job training as a part of the UITF revision.



Additional Information on Missouri's Workforce Skills

The Missouri Training and Employment Council develops and provides recommendations regarding the improvement of the state's employment and job training service delivery network. The council considers improved federal and state resource utilization and coordination of state employment and job training activities. The council serves as a forum for public and private sector representation. To better understand the needs of Missouri employers and meet the needs of Missouri's changing economy, Governor Holden will direct the council to develop a "State-of-the-Workforce" report to identify gaps in skills and education of the workforce and recommend strategies to increase essential skills and knowledge that will help people get and keep high-quality jobs.

Job Creation Investment in Missouri

Increasing the accountability of programs designed to create jobs for Missouri workers is necessary to ensure that the state's resources are being invested wisely. While some incentive programs provide statutory directives for oversight, many do not. Governor Holden wants to ensure that job creation occurs in Missouri and make certain that companies receiving state incentives create the jobs and investment they promise.

2003 Legislative Initiative Increasing the Accountability for Job Creation Investments

Currently the state Department of Economic Development verifies compliance by companies that receive incentives in those programs where oversight is authorized by law. In other cases, the department must rely on the voluntary submission of information to assess whether the jobs or business growth promised has occurred. In order to ensure that companies receiving incentives from the state are actually creating the jobs and investments they promise, the Governor recommends legislation to:

- Revise the state's various tax credit and incentive programs to incorporate provisions for the reporting and subsequent verification of new jobs created, dollars of new investments, project financial and compliance records, and other prescribed accountability requirements.
- Strengthen the "clawback" provisions in the state's incentive programs to allow the state to recapture issued credits or reclaim monetary incentives from those who fail to meet the terms of any incentive agreement and do not produce jobs and investments as they promised.

CREATING JOBS THROUGH BUSINESS DEVELOPMENT

Missouri must be committed to the creation of new ideas and technologies and encourage their application in businesses. These new technologies must be available to all industries, in both new and existing businesses, small and large. Primary action must be taken by the private sector, but the state will play a vital supporting role. Governor Holden proposes several initiatives to focus on this supporting role.

Tax Credits

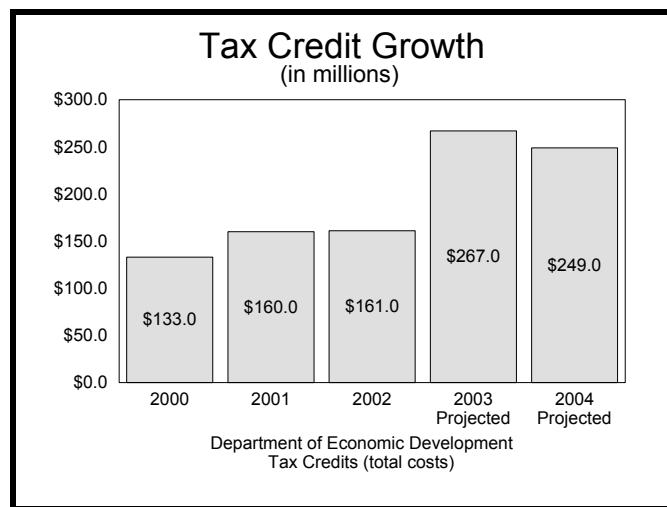
Missouri's economic development programs are designed to leverage private sector investments, which would not have occurred otherwise, in the state's businesses or communities. Even though individual tax credit programs were enacted to achieve a specific goal, the state should know whether all the programs continue to produce a good return on the public's investment through foregone tax revenue.

Tax credit investments in high-paying jobs, firms and farms, and community quality of life will bring economic and other benefits to the state over time. The amount of redeemed tax credits has grown – from \$133 million in 2000 to a projected \$249 in 2004. At the same time,

state revenue growth is declining. Last year the Governor called on the Department of Economic Development and its Ad Hoc Task Force on Tax Credits to evaluate existing programs on the following criteria:

- Effectiveness – Are credits producing good results; can the desired results be better defined? Are there better ways to target credits to needy urban centers/inner cities and rural communities?
- Efficiency – Is it possible the credits could get the same or greater benefit at less cost to the state?
- Greater administrative uniformity and clarity – Can the existing programs be streamlined and simplified?
- Cost – Does the program have a predictable annual cost? If not, can the program be altered to achieve this?

The Governor's Fiscal Year 2004 legislative and budget agenda is based on recommendations of the task force.



2003 Legislative Initiative Refocusing Tax Credits to Stimulate Missouri's Economy

To maximize and ensure the state's return on its investment, Governor Holden will call on the General Assembly to reform and refocus a series of existing tax credit programs to produce better job growth and streamline administration for increased efficiencies. Some of the tax credit programs have been in existence for many years and are in need of modernization. The savings from this modernization will be targeted to new programs that encourage knowledge-based development, better serve distressed areas, and create more job growth and opportunities. The Governor's initiative will:

- Repeal the Business Facility Credit, Film Production, SBA/USDA Loan Fee, Transportation, Skills Development, and Mature Worker programs. These well-intentioned programs have failed to produce the economic impacts originally envisioned despite active promotion and funding.
- Modify the Enterprise Zone Program from one focused on the job creation potential of past decades to a program focused on opportunities to create higher-wage jobs that will help Missouri's economy recover and achieve greater stability.
- Change the cumulative cap currently in place on the Business Use Incentives for Large Scale Development (BUILD Missouri) Program to an annual cap, thus providing predictable impacts on the state budget while preserving the benefits of this successful program.
- Revise the Research and Development Program to produce better results for the state by targeting it toward growth industries, allowing smaller businesses to benefit from it as well as well-established companies, and encouraging commercial research to be conducted at our state universities.
- Establish a flexible cost control measure for the existing Historic Preservation Program. This new mechanism should lead to more predictable growth for the program, lower costs, and clarify administrative procedures while preserving the effectiveness of the program. The Missouri program has become a national model. However, the current economy makes it necessary to be able to predict costs and control investment in redevelopment programs.
- Reform the Low-Income Housing Tax Credit to increase the rate of return on the state's investment in low-income, multi-family housing by changing certain attributes of the existing credit to increase its marketability.
- Create the Competitive Communities Tax Credit Program by consolidating the Development and Rebuilding Communities programs.
- Create the Sustainable Neighborhoods and Communities Program by consolidating the Neighborhood Assistance and Youth Opportunity programs.

Broad-Based Relief for Corporations and Targeted Relief for Working Families

The national economic recession is still causing many Missouri companies to defer making investments in capacity, to downsize employment, or go out of business completely. Targeted tax reduction is timely and needed. Governor Holden recommends ending the practice of giving money away haphazardly through loopholes in the state's tax laws. Those paying more than their fair share of taxes should get some relief.

In order to help Missouri's revenue situation during the current fiscal crisis, Missouri must not only cut services, it must also take steps to stimulate economic activity that will produce more revenues for vital state services. As a part of this effort, the corporate tax rate should be reduced so that when businesses are faced with decisions about locating or expanding, they will be more likely to choose Missouri, as opposed to another state or another country.

In addition, relief should be given to working Missourians. Sales tax holidays have been implemented by other states across the country to increase consumer spending and grant temporary relief from state taxes.

Small Business Development and Entrepreneurs

The new economy is increasingly made up of small- to medium-sized businesses and emerging entrepreneurs, especially those that use or produce new technology. These businesses offer the key to a higher standard of living and job creation through the infusion of innovative ideas and technologies.

Governor Holden recommends \$600,000 from tax credit savings to create a Missouri Small Business Network (MOSBN) that will provide better, more coordinated services to small businesses and improve the performance of state Minority Business Enterprise (MBE) and Women's Business Enterprise (WBE) programs. These funds will also support regional research and industry cluster analysis to identify emerging business sectors and find new ways to help businesses be competitive.

Additional efforts to assist small businesses will be coordinated through the expanded services of the Small Business Ombudsman within the Office of the Governor. Currently, the ombudsman's duties are limited to those prescribed by law relating to the efforts of the Department of Natural Resources. Governor Holden will expand those duties to include joining efforts of the state departments of Economic Development, Higher Education, and Agriculture.

2003 Legislative Initiative Cutting Taxes to Stimulate the Economy

Governor Holden proposes providing economic incentives to Missouri businesses and individuals to spur economic activity by:

- Reducing the corporate tax rate by one percentage point from 6.25 percent to 5.25 percent. This across-the-board reduction in the corporate tax rate will fairly reduce the burden on corporations and provide an incentive for Missouri businesses to invest, thus spurring greater economic activity.
- Establishing a State Sales Tax Holiday. A three-day sales tax holiday every August to help citizens with back-to-school purchases. The holiday will also help Missouri businesses and attract people from surrounding states.

In addition, the Governor's Fiscal Year 2004 budget includes the following to stimulate small business growth:

- \$600,000 federal funds to develop a one-stop Internet portal that will allow businesses to conduct all activities associated with starting a new business or maintaining an existing business. This portal will allow the sharing of information between the federal and local governments. The activities are available to citizens or businesses 24 hours a day, seven days a week. The state of Missouri has been approached by the federal Small Business Administration to participate in this program.
- \$299,739 to support approximately 12 more Missouri meat processing plants throughout the state. Funding will expand the number of inspections and create additional jobs.

Business Presence in State Contracting

Missouri purchasing statutes have long required that each bid inform bidders that a preference for Missouri businesses exists. Missouri's current law requires a preference when there is a tie bid between a Missouri provider and an out-of-state provider. This

reflects historic legislative intent to give some consideration in the bid process to those businesses which contribute to the economic well-being of the state. The Governor recommends enhancing the statutes so the state may more broadly consider the extent and degree to which competing businesses, proposing comparable bids, contribute to the economy of Missouri.

Retain Existing Missouri Jobs

Almost one year ago, Ford Motor Company announced plans to close its Hazelwood facility by mid-decade as part of an overall restructuring. This action, should it come about, would result in the loss of 2,600 jobs and \$169 million in annual salaries provided by the facility. Ford's Hazelwood operations represent four-tenths of one percent of Missouri's entire Gross State Product, amounting to \$753 million. It indirectly supports 33,000 manufacturing jobs and has more than a \$1.7 billion impact on our economy. Additional steps should be taken to protect existing jobs and state and local revenue provided by the Ford plant.

2003 Legislative Initiative Missouri Presence in Procurement

Governor Holden recommends legislation to permit the state, through the procurement process, to give favorable consideration to those businesses that contribute to Missouri's economic growth. The proposal will allow the state to recognize Missouri businesses which employ Missouri citizens and contribute the state's economic growth.

2003 Legislative Initiative Retaining Jobs in Hazelwood

Governor Holden recommends legislation to provide targeted state assistance to retain the jobs at the Ford Hazelwood facility. The proposal will:

- Change the Enterprise Zone Program to allow its use in encouraging Ford to commit to new investments and the retention of the current workforce.
- Modify the successful BUILD Missouri Program to allow for its use in encouraging Ford to invest in the Hazelwood facility. A new substantial capital investment would be required to qualify.
- Allow the Community College New Jobs Training Program to provide funds for retraining its workforce at the Hazelwood plant if the company invests in new production and retains its workforce.
- Require that Ford make a substantial capital investment and maintain the facility operations and jobs for a specified period of time. Failure to comply with the requirements would result in the termination of public investment and/or the imposition of penalties.
- Require state assistance be part of a coordinated proposal with the City of Hazelwood, St. Louis County, and private business interests in the St. Louis region.

Research and Technology Commercialization

Too often our economic development efforts have focused on recruiting a company to Missouri rather than fostering the growth of Missouri companies. To expand Missouri businesses, the state needs to coordinate the identification of promising new technologies and research expertise. In many cases, the research has been done; however, there is no ability to link that technology with those who can use it to create companies and new jobs. Resources are needed to broker information sharing between researchers and those entities with the technical and capital resources to turn ideas into reality. To expand the state's commercialization capabilities and stimulate job growth, the Governor recommends \$1.5 million from tax credit savings to:

- Create the Research Alliance of Missouri (RAM), a new partnership among universities, the private sector, and Missouri government to better coordinate research.

- Enhance the work of the existing Missouri Technology Corporation. The corporation should aggressively promote the growth and use of technologies by Missouri businesses.
- Expand the capacity of Missouri Innovation Centers to assist technology-based, start-up companies so they will be more likely to locate and create additional jobs in Missouri.

In addition, the Governor will:

- Direct the Coordinating Board for Higher Education to develop uniform procedures that will remove barriers to patenting and commercialization at Missouri universities and create authority to receive patent donations from businesses in an increased effort to establish new enterprises in the state.
- Support the use of existing Missouri Development Finance Board infrastructure credits to advance the investment in life science research and commercialization.

Two outstanding examples of life science initiatives are the St. Louis CORTEX Plan and the Kansas City Technology Center. These efforts are presently positioned to increase life science-related commercialization capacity in Missouri's two major urban areas.

- Work aggressively to retain existing U.S. Army schools and support the expansion of military missions within Missouri through the Base Realignment and Closure (BRAC) process as authorized under the National Defense Authorization Act. The state will also work to maintain related job growth associated with businesses locating near various military facilities such as those at the University of Missouri Research Park at Fort Leonard Wood.

The Battelle Report on Life Sciences

To further emphasize the importance of technology and commercialization efforts, Governor Holden recognizes the important role of plant and life science research to the future economic vitality of Missouri, as well as the potential to improve the health and well-being of Missouri citizens. The Governor acknowledges the recently issued report by the Battelle Memorial Institute, *Life Sciences and Missouri's Economic Future: An Opportunity to Build One Missouri*, as an important contribution to understanding how we can expand Missouri's economy in the life sciences area. The plan and direction outlined in the report are keys to Missouri becoming a national leader in the life sciences, including human disease treatment, plant and agricultural sciences, and environmental technologies. When state resources become available, this report should be a guide for our state's public and private investment in this area.

Missouri's Environmental Regulatory Climate

Missourians demand continued protection and stewardship of the state's high-quality air, land, and water resources. Governor Holden is committed to continuing the protection of those natural resources for the benefit of today's

citizens, as well as future generations. The Governor is also committed to enhancing Missouri's reputation as a good place to conduct business and create and maintain jobs. A sound economic development climate and high-quality environmental protection policies are interdependent. Toward this end, the Governor has identified several areas where improvements can be made in Missouri's environmental protection efforts. These improvements will aid Missouri's businesses in the future by eliminating redundant efforts on the part of state government, by providing more efficient and consistent environmental protection decision making, and by granting additional access to financial and technical assistance.

Improving Missouri's Environmental Regulatory Structure

Under both federal and state laws, businesses are often required to obtain permits from the Department of Natural Resources (DNR) when their operations have an environmental impact. As a participant in the Governor's Missouri Results Initiative, the department, businesses, and the environmental community have worked to improve the timeliness and efficiency of environmental permitting processes. Missouri businesses are reaping the benefit of improved permitting processes. However, Governor Holden believes there is more that can be accomplished.

Currently, environmental permit denials or permit conditions made by DNR can be appealed to a set of citizen boards and commissions that oversee the permitting process. Governor Holden believes that continued citizen input and oversight of department operations is essential to good environmental protection policies. However, to operate in a competitive and effective fashion, Missouri businesses are entitled to consistent, timely decisions. Accordingly, Governor Holden has directed DNR to institute new policies so businesses receive more consistent and timely permitting decisions, and a more uniform and reasonable appellate process that serves to protect the environment.

Reform of Financing for Remediation of Contaminated Petroleum Storage Tanks Sites

It is crucial for the future of Missouri's economy that property that has chemical contamination from past industrial, manufacturing, or other business practices be cleaned up and put back in productive use. In our urban core areas, as well as in out-state Missouri, hundreds of parcels of properties continue to sit idle because of existing contamination. One of the most pervasive types of contaminated sites is from petroleum storage tanks. Missouri has a program for the cleanup of contaminated petroleum storage tank sites that has resulted in the cleanup of 4,500 sites. This program has been paid for by a one-half cent per gallon fee that petroleum dealers pay and which is ultimately passed on to Missouri motorists. There are an additional 1,500 known contaminated sites in Missouri and likely hundreds more that are not identified.

Governor Holden believes that the state must determine if there are more efficient ways to finance the remediation of these sites. One of the models that will be closely examined is whether all or a portion of the activities of the Petroleum Storage Tank Insurance Fund (PSTIF) should be privatized. By closely examining the operations of the PSTIF, the state can ensure that Missouri motorist dollars go further in cleaning up contaminated sites and benefit the state's economy.

Enhancing Opportunities for Achieving Environmental Compliance

Under Governor Holden's leadership, Missouri will initiate an Environmental Management System process called the Missouri Environmental Management Partnership (MEMP). This initiative encourages businesses and other regulated entities to assist DNR in assessing and developing an environmental plan for the regulated entity. Though strictly voluntary, MEMP will hold partners to generally recognized

environmental conformance criteria, which includes commitment to regulatory compliance as well as broader environmental goals. It will also provide regulated entities with opportunities to streamline permits and create a more flexible system to achieve compliance.

CREATING JOBS THROUGH COMMUNITY DEVELOPMENT

Growth in Downtown Areas

During the current national recession, many of our communities have been impacted by the loss of jobs and businesses. The result is a decreased ability to provide modern economic infrastructure, such as streets, utilities, broadband telecommunications, parking facilities, and development-ready properties that could, in turn, attract new business growth and create greater economic viability. This vicious cycle has caused a reduced capacity in some communities - of all sizes and in all regions of the state - to provide critical services and meaningful redevelopment of blighted areas.

It is now more critical than ever for communities and the state to be aggressive in providing the physical assets needed to compete on a global basis for high-paying jobs and world-class companies. While economic development incentives are a part of influencing companies, it is even more important to provide the best community environment possible to retain and attract businesses and quality jobs. Ongoing investments are needed to achieve sustained economic growth.

In order to make these critical infrastructure improvements possible, the Governor supports allowing a portion of the new state and local tax dollars generated by targeted business and job growth to be captured and used to finance the cost of the improvements.

2003 Legislative Initiative Missouri Downtown Economic Stimulus Act (MODESA)

Governor Holden supports the creation of a "Missouri Downtown Economic Stimulus Act" (MODESA) that will give Missouri communities of all sizes the tools they need to modernize the "downtown" infrastructure that is most critical to their economic well-being. Such a proposal will provide a reliable method of financing critical infrastructure improvements while respecting the need for fiscal integrity of the state and state oversight. The legislation Governor Holden supports will:

- Authorize cities and towns to establish downtown commissions to approve development plans that are designed to preserve and improve downtown infrastructure.
- Allow cities to apply for a portion of the new state revenues to be generated by approved projects. The program should have an annual cap of \$15 million.
- Create a joint committee of the General Assembly to review the program every five years.
- Require MODESA participants to report annually to the Department of Economic Development on the performance of the project, including reporting of the funds collected and jobs created.
- Sunset the existing State Supplemental Tax Increment Financing (TIF) law. The current law has shortcomings that do not allow the financing mechanism to be used to its full potential.

Viable Missouri Communities

As previously outlined in this chapter, the Governor recommends legislation to enhance the viability of Missouri communities so they attract and sustain businesses and quality jobs for its citizens.

The Sustainable Neighborhoods and Communities Program takes the best aspects of the existing Neighborhood Assistance and Youth Opportunities Tax Credit programs and consolidates them into a single program. These programs have helped many individuals achieve self-sufficiency. Communities have enhanced their competitive edge and economic growth. However, it is clear that there are administrative inefficiencies and a need to better focus resources on assisting individuals and communities in becoming full participants in the new economy. The new program will continue important partnerships with the many not-for-profit agencies throughout the state, while saving money through administrative efficiencies and focusing on objectives that will provide all our communities the ability to offer opportunities to those less advantaged.

The Competitive Communities Tax Credit Program will focus on the known factors, such as regional business clusters, that drive their current economies. This new tax credit program will be based on the best components of several other business incentive programs which will be repealed. The Development Tax Credit, which was well intentioned but imposes overly bureaucratic requirements, fails to provide the best return for the state or participating businesses in its current form. Likewise, the Rebuilding Communities Tax Credit Program has failed to produce significant demand. The original goal of providing incentives to businesses located in distressed communities should be maintained through the new program.

Identifying New Strategies to Promote Community and Regional Growth

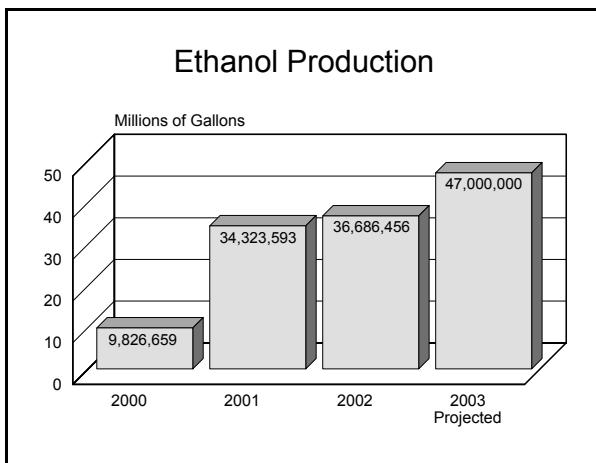
Increasing the competitiveness of our communities will require that government find new strategies to promote community and regional growth. Governor Holden will direct the formation of an Economic Cooperation Council composed of the departments of Economic Development, Agriculture, Labor

and Industrial Relations, Natural Resources, and Higher Education. The council will be charged with the coordination of job development, business growth, and infrastructure programs, as well as regulatory policy-making and enforcement.

Small Farm Business Enterprises

The viability of Missouri's small farms and rural communities is at risk if farmers do not have access to capital to seek new ventures that add value to the agricultural products they produce. Ethanol-based fuel improves air quality and increases the productivity of Missouri farms. The Missouri Ethanol Producer Incentive Fund provides economic subsidies to qualified ethanol producers. At maximum capacity, the plants in Macon and Holt counties can process 23.5 million bushels of corn that will produce an estimated 60 million gallons of ethanol each year. In 2005 a third plant located in Laddonia, Missouri will go online. With this third plant, Missouri will be able to process 33.7 million bushels of corn each year to produce 90 million gallons of ethanol. To help farmers add value to their commodities, the Governor recommends:

- \$6 million in New Generation Cooperative Incentive Tax Credits. Cooperatives, like Missouri's two ethanol plants, are eligible for credits if they convert agricultural commodities into value-added goods.
- \$3.9 million to continue producer incentives supporting Missouri's ethanol plants.



Missouri Transportation System Accountability

Missouri's economic future is dependent upon the development of an effective and efficient total transportation system. It is a known problem - transportation resources are insufficient to meet our needs. On August 6, 2002, Missouri voters defeated a proposal to increase funding for Missouri highways. Governor Holden believes the vote was, in part, a vote of "no confidence" in the state's Department of Transportation. The Governor called on the department to take immediate action to restore credibility in the department and increase accountability to the taxpayers. Missourians must feel confident that their tax dollars for roads, bridges, repairs, and construction are spent wisely.

Missouri's Constitution places control of the state Department of Transportation with a six-member Highways and Transportation Commission, not with the Governor. The Governor does not hire the director, nor does he have any direct authority over the department. The current system of oversight over the state's highway department is not working as effectively as it should.

Governor Holden recommends restructuring the State Highway and Transportation Commission and the Department of Transportation. Missouri's citizens expect a better transportation system, and this restructuring will facilitate desperately needed improvements. The Governor proposes to expand the size of the commission to provide wider representation of citizens in decisions affecting the use of transportation resources. The commission, under this proposal, would be charged with annually approving the Statewide Transportation Improvement Plan. A director appointed by the Governor would also be more directly accountable to Missouri citizens for the appropriate use of transportation resources.

In addition, the Governor recommends limiting highway fund usage to the Department of Transportation, the Department of Revenue, the Highway Patrol, and the Office of Administration. (Reducing the number of agencies expending highway funds should result in additional funds being available for road and bridge construction and maintenance.)

2003 Legislative Initiative The Transportation Accountability Act

To improve the Department of Transportation, the Governor proposes the General Assembly enact a resolution to send to Missouri voters that will:

- Give the Governor the authority to appoint the Director of Transportation. This position will serve at the pleasure of the Governor like the majority of other state cabinet directors.
- Transfer various duties from the Highway and Transportation Commission to the Director of Transportation.
- Require approval of the annual Statewide Transportation Improvement Plan by the Transportation Commission.
- Expand representation on the commission by increasing the number of members from six to nine, with one member coming from each U.S. Congressional District.
- Take effect on January 1, 2005.

In addition, Governor Holden proposes legislation that will limit the so-called "diversion" of highway funds. Under this proposal, highway funds would be spent exclusively by the:

- Department of Transportation - for roads/bridges construction and maintenance and related costs.
- Highway Patrol - for enforcing motor vehicle traffic safety laws.
- Department of Revenue - for specific and justified costs of collection and administering the driving while intoxicated program.
- Office of Administration - for centrally administered items such as leasing and fringe benefits for employees performing the functions outlined above.

This legislation would also require the State Auditor to conduct an annual financial audit pertaining to the use of highway funds to ensure that all relevant constitutional and statutory mandates are being complied with.

MISSOURI BUDGET AND LEGISLATIVE AGENDA

Missouri is a Safe, Healthy Place to Live and Work

“My goal continues to be to protect the most vulnerable Missourians and provide a continued investment that ensures a safe and healthy Missouri.”

Governor Bob Holden

Governor Holden is committed to improving the health and safety of Missouri citizens. The Governor has repeatedly stated his commitment to protect those Missouri citizens who rely on vital government services and has taken significant action to make Missouri a safer place to live. Consistent with his accomplishments over the past two years, the Governor’s Fiscal Year 2004 budget and legislative agenda provides additional means to protect Missourians.

In his first two years, Governor Holden accomplished the following to improve the state’s investment in improving the health of Missourians and making our communities a safe place to live and work.

- Appointed the nation’s first state Homeland Security Advisor. The Governor also created a Missouri Security Panel, composed of statewide elected officials, officials from state government, local law enforcement, private citizens, and other relevant officials. The panel assessed the readiness of the state and its communities to deter, prevent, and appropriately respond to acts of terrorism in Missouri.
- Initiated Homeland Security legislation to implement recommendations of the Missouri Security Panel and enhance the safety of Missouri citizens. The bill prohibits and penalizes criminal hoaxes, prohibits agroterrorism, directs the State Emergency Management Agency to activate volunteers during a broader range of disasters, permits the Missouri State Water Patrol to close dangerous waterways, outlaws hazardous materials near or in tunnels, and strengthens laws against assisting terrorists. Senate Bill 712 was signed into law July 1, 2002.
- Supported legislation to strengthen the state’s driving while intoxicated laws. The legal limit for blood alcohol content was lowered to .08 and stronger penalties were established for repeat offenders. As a result, the diversion of \$8 million in federal highway funds was avoided, and Missouri will qualify for an estimated \$3 million in federal incentive funds. House Bill 302 was signed into law June 12, 2001.
- Called for legislation to provide comprehensive protection for women’s health to improve the lives and life expectancies of women in Missouri. This important law provides Missouri women direct access to the health care providers most often visited for women’s health issues, OB/GYNs, and grants women the opportunity to access critical contraceptive coverage. It also requires health plans to notify all enrollees about cancer screenings offered as benefits and expands Medicaid coverage to low-income women diagnosed with breast and cervical cancer. House Bill 762 was signed into law on June 21, 2001.
- Recommended legislation to ensure continued access to health care for Missouri children. The successful State Children’s Health Insurance Program (SCHIP) offers health insurance coverage to uninsured children at a cost to the state of about \$250 per year per child. Results show that children in SCHIP have better school attendance and reduced emergency room visits. The General Assembly originally enacted legislation to expand health care coverage through SCHIP in 1998, but the program was time limited. Governor Holden called on the General Assembly to continue this program that provides vital health care for Missouri’s children. House Bill 1926 was signed into law June 5, 2002.

- Created a statewide alert system, Alert Missouri, to notify media, law enforcement, and the public of child abductions. The plan is based on the AMBER Alert System, which is named after Amber Hagerman, a nine-year-old from Texas who was abducted and murdered in 1996. The plan links five state agencies, local law enforcement, and the Missouri Broadcasters Association and establishes a central point of contact to expand notification to areas around the state.
- Created a Domestic Violence Task Force by Executive Order to conduct an inventory of state funding dedicated to domestic violence, enhance public and private resources, investigate opportunities to expand prevention and intervention services, and develop a statewide action plan. In addition, the Governor signed into law House Bill 1814 in 2002, which implements recommendations made by the task force. The bill removes obstacles to obtaining and enforcing protection orders for victims of domestic violence or stalking, makes it easier for victims to go to court without having to interact with their abuser, and simplifies the procedure for enforcing a protection order from another state.
- Proposed legislation to better coordinate state services to victims by establishing an Office for Victims of Crime. Senate Bill 267 was signed into law July 2, 2001, and provides a central point of contact for crime victims in Missouri.
- Supported legislation to prevent criminals with outstanding warrants for their arrest from being released from jail. Jake's Law, House Bill 144, was signed into law May 31, 2001. The bill is named in memory of Jake Robel who died tragically in February 2000.
- Recommended legislation to provide relief to seniors for the high costs of prescription drugs. The bill establishes the Missouri Senior Rx Program to provide benefits to seniors who need assistance the most. House Bill 3 and Senate Bill 4 were signed into law October 5, 2001.
- Signed legislation to reorganize the former Division of Aging and Department of Health to form a new Department of Health and Senior Services. The bill also established a new State Board of Senior Services to advise the department about rules, regulations, budgeting, planning, and operations related to senior services. House Bill 603 was signed into law on June 26, 2001.
- Established a web site to help Missourians make informed choices about long-term care facilities. Missourians can go to www.dhss.state.mo.us/showmelongtermcare to find out information about a facility's latest inspection, including whether the facility had any violations and whether it corrected those violations.
- Proposed legislation to enhance regulation of long-term care insurance policies for seniors. Missouri's law that governs the sale of long-term care insurance allowed insurers to price long-term care policies cheaply and then compensate with large rate hikes as the person insured ages. This legislation requires insurers to price policies for the long run to avoid large rate hikes later. House Bill 1568 and Senate Bill 1009 were signed by the Governor in July 2002.
- Signed legislation to protect Missouri consumers from high interest rates and loss of property. New laws tighten regulations for payday and title loan companies and increase consumer protection measures. House Bill 738 and Senate Bill 186 were signed into law on July 12, 2001.
- Supported legislation to curb underage smoking by making it illegal for minors, under the age of 18, to possess tobacco products. House Bill 381 was signed into law on July 13, 2001.
- Recommended legislation to protect Missourians from sexual offenders by removing the statute of limitations for prosecution of forcible rape and forcible sodomy cases. House Bill 1037 and Senate Bill 650 were signed into law March 6, 2002.
- Signed crime-related legislation that prevents offenders convicted of certain sexual assault crimes from being released from prison during the appeals process. Senate Bill 969 was signed into law July 10, 2002.

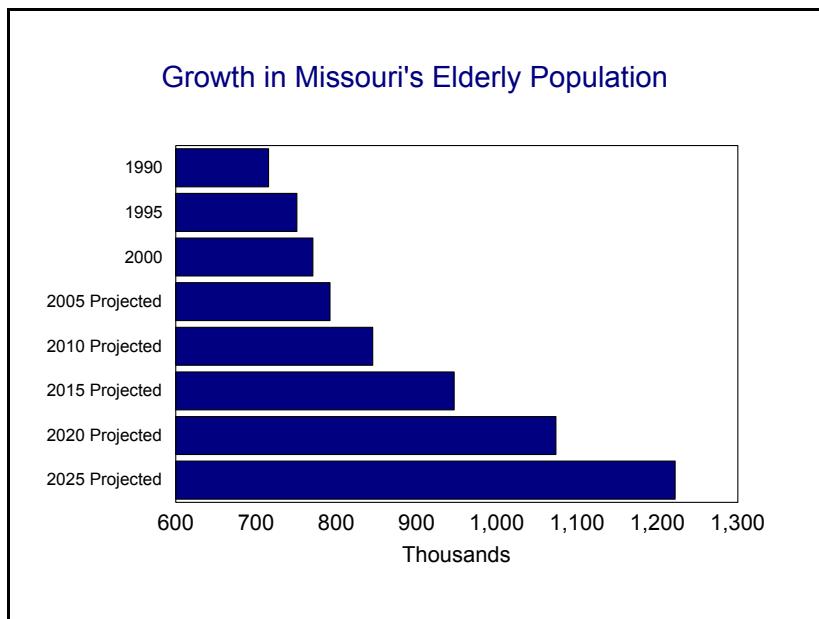
SUPPORTING MISSOURI SENIORS

The number of Missouri seniors, those over 65, is rapidly increasing. Over 750,000 seniors now reside in the state, of whom 10 percent live in poverty. From 13.5 percent of Missouri's population in 2000, those 65 years and older will exceed 1.2 million by 2025 and will comprise almost 20 percent of the state's population. The goal to improve the quality of life for the elderly in Missouri continues to be a priority for Governor Holden. His Fiscal Year 2004 budget and legislative agenda contains initiatives to protect seniors residing in long-term care facilities and enhance the Missouri Senior Rx Program.

Protections for Missouri Senior Citizens

Over 58,000 elderly and adults with disabilities currently reside in 1,185 licensed long-term care facilities. While most facilities annually meet state requirements for health and safety, there are a few facilities that continue to be in and out of compliance. During Fiscal Year 2002, 141 facilities were repeatedly issued notices of Class I non-compliance. The

homes were cited for putting residents in imminent danger where death or serious physical injury could result. In addition, 40 of the 488 Medicare-certified facilities in Missouri had findings of actual resident harm on at least two consecutive inspections. Complaints against institutions are up 34 percent. Most nursing homes in the state are providing good, quality care for their residents. Unfortunately, there are a few facilities that repeatedly put the lives of their elderly residents at risk. A St. Louis Post-Dispatch investigation recently found that thousands of America's nursing home residents are dying each year from preventable causes. Nursing homes that put their residents at risk often escape with little or no penalty. Some homes correct reported violations by the time the home is inspected by the state or they pass the second inspection by submitting plans for correcting a violation, only to be cited again for the same problem. Missouri law lacks the teeth necessary to punish those responsible for crimes committed against the elderly. Missouri should do all it can to protect its seniors.



2003 Legislative Initiative The Senior Care and Protection Act

Missouri should take assertive steps to end its roller coaster system of enforcement. The Governor calls on the General Assembly to enact tougher standards on long-term care facilities and protect seniors wherever they may live by:

- Expanding the ability of the Department of Health and Senior Services to identify and bar persons who have abused, neglected, or financially exploited seniors from caring for the elderly in health care settings.
- Allowing the department to revoke a nursing facility license for the same reasons they would deny issuing a license in the first place.
- Enhancing the ability of the state to levy civil penalties against a nursing facility that is out of compliance with state regulations and then to collect those fines that are levied. Current law allows nursing homes to avoid civil penalties if problems cited have been corrected at the time the facility is re-inspected.
- Preventing negligent companies from other states from opening nursing homes or home health agencies in Missouri. Current law prevents consideration of an operator's history in another state before allowing them to do business in Missouri.
- Expanding the statute of limitations from 180 days to two years for nursing home residents to initiate a complaint regarding any violation of their rights under Missouri's nursing home statutes.
- Requiring long-term facility administrators to contact the county coroner immediately upon the death of any resident in a facility, including any resident who has been moved to a hospital. Current law does not require a death in a nursing home to be reported to the coroner.
- Rewarding nursing homes with good performance records that show consistent quality of care by reducing bureaucratic red tape.
- Requiring in-home service owners, operators, and employees to report suspected abuse or neglect of elderly or disabled adults.
- Mandating new employees of in-home services to have a background check prior to having contact with clients.
- Requiring all Medicaid providers to train employees on abuse and neglect identification, prevention, and reporting prior to unsupervised client contact.
- Extending current anti-retaliation protection that exists for most nursing home employees to workers employed by nursing home districts throughout Missouri.

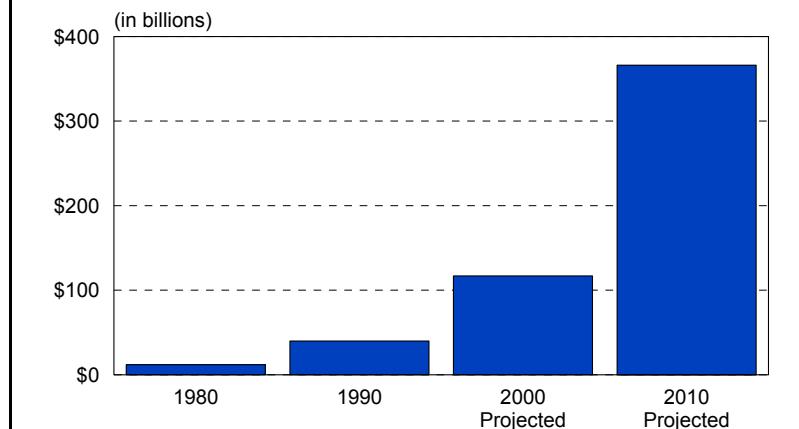
Prescription Drug Relief

For too long, the affordability of prescription drugs for Missouri seniors has been a serious concern. Prescription drug coverage is still excluded from Medicare, and separate insurance to cover prescription drugs is very costly. Many seniors must make difficult choices about which of their prescriptions to forego, possibly leading to serious health care consequences.

In 2001 the General Assembly failed to pass the Governor's Prescription Drug Plan. The Governor called the General Assembly back for a special session to address this important

issue. They passed a plan Governor Holden signed into law, creating the Missouri Senior Rx Program, to provide benefits to seniors who need assistance the most. The legislation also established a commission to oversee the program which is chaired by Lt. Governor Joe Maxwell. The program began July 1, 2002, and is already serving about 22,000 seniors. Governor Holden supports this important program and continues to work to increase participation and expand the number of prescription drugs covered. The Governor's Fiscal Year 2004 budget includes \$29.8 million to ensure an estimated 40,100 seniors benefit from the Missouri Senior Rx Program.

National Health Expenditures on Prescription Drugs



2003 Legislative Initiative Improving Access to Prescription Drugs

The Missouri Senior Rx Program has encountered some difficulty in enticing large generic drug manufacturers to participate in the program due to the current rebate required by the original law. Lowering the rebate amount will expand the availability of drugs covered through the program. To increase participation from generic prescription drug manufacturers, the Governor recommends changing the rebate amount paid by manufacturers of generic prescription drugs from 15 percent to 11 percent. This change will provide an incentive for large drug manufacturers to participate in Missouri's program and is consistent with the percentage used in the Medicaid Program.

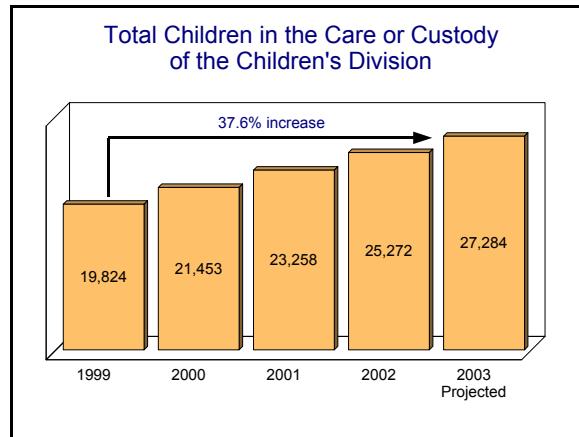
PROTECTING MISSOURI'S MOST VULNERABLE CITIZENS

Every child in Missouri is entitled to a safe place to live. It is a right, not a privilege. Governor Holden is firmly and absolutely committed to protecting those rights for all of our children. Last year, the Governor initiated an investigation in the wake of the tragic death of two-year-old Dominic James who was residing in a foster home in Willard, Missouri. The investigation's report found Greene County's child welfare system broken and requiring immediate attention. The Governor proposes significant reform of Missouri's child welfare system. Reform efforts are already underway, but these changes will not take place overnight. Governor Holden will work with the General Assembly to put in place additional measures to protect Missouri's children.

Steps Taken to Address Missouri's Child Welfare System Problems

Governor Holden has moved swiftly in addressing problems that have been identified with the current child welfare system. To date, the Governor has:

- Conducted an investigation into the Greene County child welfare system. The Governor appointed Richard C. Dunn and Judge Frank Conley in September 2002 to lead this effort. Their investigation was completed in November 2002.
- Established the Office of Child Welfare Ombudsman within the Office of Administration as recommended by the *Report of the Investigation of the Child Welfare System in Greene County*. The ombudsman will be responsible for independently promoting public awareness and understanding of the child welfare system; identifying system issues and responses for the Governor and the General Assembly to act upon; and monitoring compliance with state and federal law, rules, and policies pertaining to children's services. The ombudsman will submit an annual report, including recommendations, to the Governor and General Assembly by October 31 of each year. The Department of Social Services will allow the ombudsman to communicate with children in the state's custody, give access to all records and documents necessary in any investigation, and grant the office unrestricted access to the department's case management information system.
- Directed the Department of Social Services to implement other recommendations found in the *Report of the Investigation of the Child Welfare System in Greene County*.
- Protected funding for children in state custody from current year withholdings and Fiscal Year 2004 budget cuts.
- Proposed the creation of a Children's Division in the Department of Social Services. Reorganization of the department will increase the focus on child protection and streamline all functions dealing with children's services.
- Recommended the Department of Social Services explore opportunities to privatize child welfare services. Currently, \$22.9 million is dedicated to privatized services for children, including case management, family reunification, and intensive in-home services.
- Recommended legislation to make sure background checks against local orders of protection or crimes committed in other states are conducted on all foster parents.



Health and Safety Standards for all Children in Residential Facilities

Allegations and investigations of children being mistreated in residential care facilities across the state have brought attention to the lack of any regulatory oversight of certain facilities. The basic health and safety standards required by state law for children in all day care facilities do not apply to some residential facilities that provide care for children on a 24-hour, seven-day-per-week, basis. This omission has created an attractive environment for any individual or group to establish an unregistered residential facility in the State of Missouri. Governor Holden believes that every child in a residential facility should be afforded assurances of health and safety.

2003 Legislative Initiative Mandating Minimum Standards for Residential Facilities

In order to provide for the health and safety of all children placed in any 24-hour care facility or boarding home, the Governor recommends that residential facilities, at a minimum, meet the same requirements as those mandated for similarly regulated facilities by:

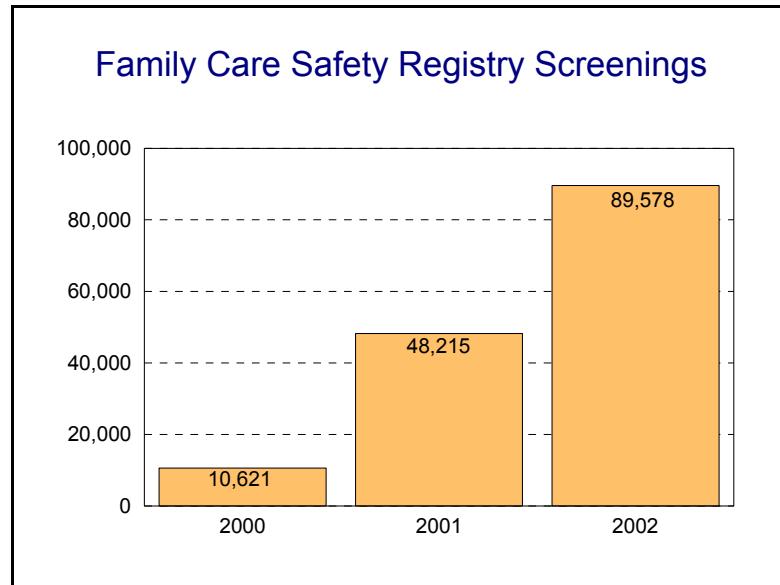
- Applying uniform health and safety standards for all facilities that provide care for children and youth on a 24-hour basis.
- Requiring all facilities providing 24-hour care for children to be registered with the state. Currently all license-exempt child care facilities must register with the Department of Health and Senior Services.
- Mandating all staff members undergo a background check, including a criminal history and a child abuse and neglect history check.
- Providing immediate injunctive relief if a child is harmed or at risk of being harmed at a 24-hour facility. This will allow for the suspension of the operation of the facility until it comes into compliance with health and safety standards.

Background Checks

Missouri has various laws and programs used by direct care agencies, providers, and families to check the backgrounds of prospective caregivers. The Family Care Safety Registry (FCSR) was originally established in 1999. State law requires childcare, elder care, and personal care workers to register with the system. Families and employers may contact the registry to obtain background information on potential caregivers. The registry is successful and is the only protection available to many individuals hiring caregivers for children, the disabled, or the elderly.

Since its inception, over 150,000 caregivers have been registered. The registry continues to receive up to 2,000 requests for background screening information each week. However, the law governing the FCSR fails to provide

information on some crimes that employers and families should know about when checking criminal backgrounds of caregivers. For example, registered sexual offenders are not screened and could end up working in a nursing home or individual's home under the current system. In addition, separate background screenings must be conducted on many providers who are also required to register under the FCSR law. Currently other statutes and state regulations require screening for additional convictions not currently under the FCSR. What is required by state agencies should be consistent with what offenses are screened by the FCSR. Governor Holden supports legislation to improve the current system by increasing consistency among departments, extending and enhancing the existing FCSR law, reducing duplicative efforts, and providing additional consumer protection.



2003 Legislative Initiative Improving Background Check Laws

To enhance and improve the background check system that protects Missouri's most vulnerable populations, the Governor calls on the General Assembly to:

- Remove the Family Care Safety Registry (FCSR) sunset, which will make the program permanent. The current program is set to expire on January 1, 2004. The program has been successful and has been used by thousands of families and employers around the state.
- Expand the crimes screened under the FCSR to include crimes considered open criminal records in Chapter 43 and registered sex offenders in Chapter 589 of state law. In addition to protecting those being cared for, this will eliminate the need for duplicate registrations and individual checks through the Highway Patrol.
- Require current and prospective foster parents to be checked against the federal criminal fingerprint database. This change would allow background checks on crimes committed in other states. Currently, only information on Missouri criminal records is obtained.
- Require the Department of Social Services to check all current and prospective foster parents for ex parte and/or full orders of protection. In the tragic case involving the death of a Greene County child while in foster care, it was found that the foster parent had a previous order of protection issued by a local court. An order of protection is an order issued by a court for the purpose of protecting an individual against harm from another specifically identified person.
- Require school district employees who come into contact with students to undergo a criminal history background check before being employed. Currently, teachers must have a background check when getting a certificate to teach. In recent months, the Highway Patrol has identified several registered sex offenders seeking employment at Missouri schools.
- Require school bus drivers to be checked against the federal criminal database. Currently, the Department of Revenue only obtains information on school bus drivers' Missouri criminal history. This creates a potential security risk to children transported to and from school or special events. The department has found that school bus driver permits have been issued to individuals convicted of serious crimes such as rape and murder in other states.

ENHANCING HEALTH CARE COVERAGE

The health of Missourians depends not only on the availability of health care but its quality. Governor Holden has made significant progress in improving the quality of health care available to Missourians. The Governor recommends additional means to achieve mental health care insurance coverage, protect individual medical records, and fund the rising costs of state employee health care.

Mental Health Parity

Approximately five percent of American adults have a serious mental illness. Medical research demonstrates that mental illnesses are biologically based and responsive to medical treatment. With treatment, many individuals can lead healthy, productive lives. However, despite the fact that treatment success rates for mental illnesses often exceed those of other chronic physical illnesses, insurance coverage continues to be more limited. Coverage imposes greater out-of-pocket expenses on patients and their families, creating barriers to treatment and recovery. The United States Surgeon General reports that: "concerns about the cost of care – concerns made worse by the disparity in insurance coverage for mental disorders in contrast to other illnesses – are among the foremost reasons why people do not seek needed mental health care."

2003 Legislative Initiative Achieving Parity for Mental Health Care Coverage

Under current law, there are several exceptions to the requirement that health insurers who cover services for mental illnesses provide the same coverage as they do for other physical illnesses. Governor Holden supports measures aimed at increasing "parity" in insurance coverage between mental and physical health. Governor Holden supports legislation that:

- Requires health carriers that offer health benefit plans in Missouri to provide coverage for mental health conditions.
- Provides coverage for both outpatient and inpatient services.
- Provides health carriers to comply with parity coverage by January 1, 2004.

Privacy for Patient Medical Records

The remarkable achievements that have been made in the medical and technological fields are forcing lawmakers throughout the country to rethink the issue of medical privacy so that all Missourians are protected. Technology has enabled rapid and easy access to vast amounts of digitized information. However, the computerization of large medical record databases and the growth of integrated managed care make it more challenging than ever to ensure that patient privacy is not violated.

Congress passed the Health Insurance Portability and Accountability Act (HIPAA) in 1996. HIPAA made many changes related to health care, including: protecting health insurance coverage for workers and their families when they change or lose their jobs; establishing standards for electronic health care transactions; and prohibiting the disclosure of employee health information by an employer. Over the past several years, state agencies have been working to achieve compliance with the federal act. However, the Act's medical privacy provisions apply primarily to health care providers and insurance companies. The Governor recommends legislation to ensure that all Missouri entities that have access to patient medical records keep that information private.

State Employee Health Care

Health care costs continue to rise for all Missourians, including state employees. In Fiscal Year 2003, the General Assembly passed, and the Governor approved, an increase of more than \$21 million to help cover the rising costs of health care for state employees. Although the state employees' portion of health care costs have gone up, if the Governor had not approved this increased funding, employees would have experienced more significant increases. The Governor is recommending \$17 million in Fiscal Year 2004 to help cover the costs of health care for state employees and their families.

2003 Legislative Initiative Ensuring Medical Privacy

Governor Holden proposes uniform disclosure and abuse prohibitions to provide patient protections without stifling important medical research or quality assurance efforts, including:

- Protecting medical records by a clear and comprehensive set of disclosure and abuse prohibitions to ensure that no business, insurance company, or government agency misuses a patient's private medical record.
- Ensuring that patients have a civil remedy for damages due to illegal use of private medical information.

KEEPING MISSOURIANS SAFE IN THEIR COMMUNITIES

Governor Holden believes state government has an obligation to assist its citizens to live safely in their communities. The Governor's agenda for Fiscal Year 2004 includes initiatives to enhance Homeland Security efforts, assist victims of domestic violence, keep prisoners behind bars, provide additional tools to law enforcement, and support Missouri veterans.

Homeland Security

The events that unfolded on September 11, 2001, were the deadliest attacks ever on American soil. Missourians grieved with the nation and united in support of each other and our great country. The tragic events of that day have made the entire nation more sensitive to personal, community, state, and national security concerns. In many respects, Missouri was the first state in the nation, outside of the states directly attacked, to respond to the events of September 11. Governor Holden was the first Governor to appoint a state-level Homeland Security Advisor. In October 2002, the Governor ordered the formation of a Missouri Security Panel to assess the readiness of the state and its communities to deter, prevent, and appropriately respond to acts of terrorism in Missouri. The panel is exploring the state's needs while creatively developing the most cost-effective ways to:

- Enhance communication between government agencies and the media, the business community, and the citizens of the state.
- Provide a short-term mechanism for leadership decisions. The panel has conducted a security audit to identify potential public and private targets and determine which facilities require additional precautions.
- Improve public safety around the state.

To continue the Governor's efforts to protect Missouri communities, the Governor's Fiscal Year 2004 budget includes:

- \$11 million to expand the Public Health Preparedness and Response for Bioterrorism and the Bioterrorism Hospital Preparedness grants. These federal funds will expand current activities aimed at readiness assessment, emergency preparedness planning, surveillance of disease and hazardous conditions, improved laboratory capacity, and the communication of risk levels and health information to the public.
- \$3.7 million federal funds to identify and adopt standards to manage state spatial data through a consolidated geographic information system operation. A central repository will be created for spatial data storage. Any feature that can be seen from the air or identified on a map can be plotted, allowing users to identify the infrastructure of schools, hospitals, power sources, or water supplies that could be vulnerable to security threats.
- \$1.8 million federal funds to continue the Business Continuity Program begun in Fiscal Year 2003. The program assesses the state's ability to conduct business in catastrophic conditions or in the case of severe infrastructure failures. A plan will be developed to provide continued State Data Center operations and the operation of various state agencies to bring the state to 100 percent preparedness.
- \$975,152 federal funds to support and secure National Guard facilities throughout the state.
- \$223,200 federal funds to develop a disaster recovery plan for the Highway Patrol's mainframe computer system, networks, and data files in the event of a man-made or natural disaster.

- \$214,701 federal funds to establish a State Information Security Office with responsibility for assessing security risks and establishing information security and cyber security policies, standards, and strategies. Computer services provided by the state have become an integral business function to all state agencies, and the information processed by these systems is now a major asset that must be protected and secured.
- \$104,899 for contract security personnel to safeguard vital assets in the state Capitol Complex in Jefferson City.

Domestic Violence Victims

Domestic violence is a crime that affects thousands of women and children in our state. Governor Holden's administration has made significant efforts to highlight the issue and coordinate state efforts dedicated to providing services to victims of crime. Even in the face of significant revenue shortfalls, no current year withholdings or budget cuts have been made to domestic violence or other programs that provide services for victims. The Governor supports additional measures to increase the state's ability to prevent domestic violence, provide services to victims, and punish perpetrators. Governor Holden's Fiscal Year 2004 budget includes \$566,000 for maintenance of the state's new automated victim notification system to inform crime victims and their local communities of the status of offenders.

2003 Legislative Initiative Improving Services to Victims of Domestic Abuse

Domestic violence is a crime that impacts all aspects of a community with devastating consequences for the primary victims, women and their children. To enhance services to victims at the local level and strengthen domestic violence laws, the Governor recommends:

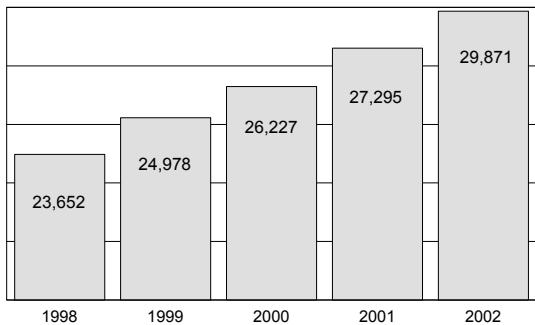
- Extending the time frame available to allow counties that did not generate higher court and license fees before an existing law ended to do so. This money is used to fund domestic violence shelters at the local level. Many rural areas have not yet passed this additional means of support but have expressed interest in doing so.
- Expanding the existing State Services to Victims grant program to allow recipients greater budget flexibility. This is the only victim services grant administered by the state that denies recipient agencies the flexibility to redirect existing funding upon the receipt of a state grant. Not-for-profit recipients of State Services to Victims grants would no longer be restricted in their use of agency funds merely because they receive a state grant.
- Enacting the federal Uniform Child Custody Jurisdiction and Enforcement Act. This model federal act strengthens Missouri law and will protect women who are trying to escape attackers, and who take their children with them, from being prosecuted for parental kidnapping. The Act has already been passed by 26 states.

Protection from Dangerous and Violent Criminals

Missouri law contains some of the toughest anti-crime provisions in the country. As a result, Missouri now requires dangerous, violent criminals to serve longer sentences than ever before. These "get tough" provisions have resulted in safer Missouri communities and a rapidly expanding prison population. During the last eight calendar years, Missouri's inmate population has grown by 11,272 inmates or 3.9 inmates per day. In Fiscal Year 2004, the average daily inmate population is projected to be 31,484. The Governor will meet the public's demand for protection from dangerous and violent criminals. The Fiscal Year 2004 budget includes:

- \$36.4 million dollars to complete the openings of the Eastern Reception and Diagnostic Correctional Center in Bonne Terre and the Southeast Missouri Correctional Center in Charleston. Funding will also maintain current interim housing at Algoa Correctional Center, Fulton Diagnostic and Reception Center, and Western Missouri Correctional Center (Cameron).
- \$13.1 million dollars to complete the opening of the new Jefferson City Correctional Center, accept the transfer of inmates and staff from the Missouri State Penitentiary, and close the Missouri State Penitentiary.

Prison Population Growth
(population at the end of the calendar year)



Bail Bond Agent Regulation

Missouri's bail bond law is out of date. The law was enacted twenty years ago and is not consistent with how the bail bond industry operates today. There have been abuses by bail bond agents relating to appropriation of money, the apprehension and surrender of bailees, and the lack of statutory authority over bounty hunters (surety recovery agents). In June 2002, a Kansas City man was mistakenly killed by bounty hunters.

Bail bond agents may do recovery work themselves or they may hire others to assist them. With no licensing or training requirements, recovery agents and bail bond agents are acting like police officers when they apprehend a bailee. Police officers are required to undergo extensive training related to apprehending suspects. Bail bond licensees should be required to attend minimum training in the areas of apprehension, civil liability, safety of innocent bystanders, surrendering bailees, constitutional law, and weapons training.

Additionally, bail bond agents have access to large amounts of money from consumers of bail services. There are no record keeping requirements under current law. The director of the Department of Insurance may refuse a bail bond license or discipline a bail bond license, only if the applicant or licensee has a felony conviction. There are many licensees who have, or have subsequently received, misdemeanor convictions for assault, drug offenses, firearm violations, and other crimes. The state should have authority to protect citizens from potential harm by denying or revoking a bail bond or surety recovery agent license. To address this public safety issue, the Governor supports strengthening Missouri's bail bond law.

2003 Legislative Initiative
Improving Regulation of the Bail Bond Industry

In order to protect Missourians and better regulate bail bond and surety recovery agents, Governor Holden recommends:

- Licensing surety recovery agents and requiring them, and bail bond agents, to have training in law enforcement techniques.
- Strengthening the bail bond law to require extensive record keeping and review so consumers of bail services get what they bargain for and get the return of their collateral, when appropriate.
- Amending current law to permit the director of the Department of Insurance to refuse or discipline a license on the basis of a conviction, or crime involving moral turpitude, even when the sentence is suspended.

Public Safety Enhancements

The state also helps ensure public safety through prevention and treatment of substance abuse, treatment of persons whose mental disabilities make them dangerous to themselves or others, and custody of individuals judged to be sexually violent predators. Governor Holden's Fiscal Year 2004 recommendations include:

- \$3 million federal funds for the Department of Mental Health to develop an integrated community-based system of care for children with severe behavioral disorders. Funding will also expand local mental health services available to the non-violent offenders with serious mental illness through the Jail Diversion Program.
- \$1.4 million to expand the treatment program for sexually violent predators at the Southeast Missouri Mental Health Center. In Fiscal Year 2004, the department expects the number of persons detained or committed to the program by the courts to reach approximately 94, up from 67 at the end of December 2002.
- \$1.3 million federal funds to provide psychiatric treatment in safe and secure environments for Missourians with mental disabilities.

Additional Crime Fighting Tools for Law Enforcement

While Missouri has made major strides in reducing crime, it remains a problem. Governor Holden is committed to making sure the state meets its fundamental obligation to protect citizens from criminals. The Governor recommends the following Fiscal Year 2004 budget initiatives to equip law enforcement agencies:

- \$10.4 million federal funds for computer-aided dispatching enhancements and to improve the availability of criminal history information to state and local criminal justice agencies.

- \$235,664 to enhance state and local efforts to curb underage drinking and encourage responsible practices among businesses that sell liquor.
- \$210,000 to improve the forensic science services provided by the state's crime labs and medical examiners.
- \$200,000 to replace Highway Patrol Crime Lab equipment used in drug chemistry and toxicology analysis.
- \$125,000 for federal local law enforcement block grants to assist local law enforcement agencies.

State Highway Safety Consolidation

Missouri's lack of adequate transportation funding challenges us to find better, more efficient ways to manage available funds. The Missouri Constitution delineates the purposes for which highway funds may be used. While Governor Holden supports the use of highway funds for these purposes, he wants these funds to be used judiciously. In 2002, the Governor ordered the consolidation of motor carrier functions into the Department of Transportation. This consolidation helped streamline operations and improve the system for motor carriers overall. Administrative savings will be realized when the consolidation is fully implemented, leaving more highway funds available for road construction and maintenance work. In another effort to consolidate similar functions and streamline government operations, the Governor recommends transferring the Division of Highway Safety from the Department of Public Safety to the Department of Transportation. This transfer will:

- Result in administrative savings of over \$137,000 and nine staff, freeing up those funds to be used for highway construction.
- Improve coordination on highway safety issues which should enhance motorist safety.
- Facilitate accountability for state highway fund expenditures by reducing the number of highway fund appropriations in agencies other than the Department of Transportation.

Missouri Protectors

Missourians have served with distinction in the armed forces of the United States, placing their lives at risk in order to preserve our freedom. Governor Holden recognizes the special debt owed to these guardians of liberty. The Fiscal Year 2004 budget includes additional resources to expand services provided by the Missouri Veterans' Commission, including:

- \$4.3 million veterans' home fund for resident care services in the St. Louis Veterans' Home.
- \$3.2 million veterans' home fund for resident care services in the Mt. Vernon Veterans' Home.
- \$952,225 veterans' home fund for pharmaceuticals and related services.
- \$111,034 veteran's trust fund for the new veterans' cemetery in Bloomfield.
- \$89,934 veteran's trust fund for the new veterans' cemetery in Jacksonville.